Political Economy

A Textbook issued by the Economics Institute of the Academy of Sciences of the U.S.S.R.

This textbook on Political Economy, prepared by the Economics Institute of the Academy of Sciences of the U.S.S.R., was first published in the U.S.S.R. in 1954. Regarding political economy as the science of the laws of development of the relations of production in human society, it deals not only with the capitalist economic system but also with pre-capitalist economic relations and, in considerable detail, with the economics of socialism. In their Foreword the authors stress that their aim is not dogmatic but scientific, and that they would welcome discussion and critical comments by all readers.

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A textbook issued by the Institute of Economics of the Academy of Sciences of the U.S.S.R.

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This Soviet textbook on POLITICAL ECONOMY was first published in Moscow in 1954. A second revised and enlarged edition appeared in 1955, and a third edition is in preparation. The present translation has been made from the second Russian edition, and edited by C. P. Dutt and Andrew Rothstein.

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FOREWORD TO THE FIRST EDITION

This textbook of political economy has been written by a group of economists comprising: Academician K. V. Ostrovityanov; Corresponding Member of the U.S.S.R. Academy of Sciences D. T. Shepilov; Corresponding Member of the U.S.S.R. Academy of Sciences L. A. Leontyev; Member of the All-Union Lenin Academy of Agricultural Sciences I. D. Laptev; Professor I. I. Kuzminov; Doctor of Economic Sciences L. M. Gatovsky; Academician P. F. Yudin; Corresponding Member of the U.S.S.R. Academy of Sciences A. I. Pashkov; and Candidate [Master] of Economic Sciences V. I. Pereslegin. Doctor of Economic Sciences V. N. Starovsky took part in the selection and editing of the statistical information included in the textbook.

In connection with the drafting of the textbook a large number of Soviet economists made valuable critical observations and contributed numerous useful suggestions concerning the text. These observations and suggestions were taken into account by the authors in their subsequent work on the book.

Of very great importance for the work on this textbook was the economic discussion organised in November 1951 by the Central Committee of the Communist Party of the Soviet Union. In the course of this discussion, in which hundreds of Soviet economists took an active part, the draft for a textbook of political economy submitted by the authors was subjected to a thorough critical examination. The proposals worked out as the result of this discussion for improving the draft of the textbook were an important source of improvement in the structure of the textbook and of enrichment of its content.

The final editing of the textbook was carried out by comrades K. V. Ostrovityanov, D. T. Shepilov, L. A. Leontyev, I. D. Laptev, I. I. Kuzminov and L. M. Gatovsky.

Being fully aware of the importance of a Marxist textbook of political economy, the authors intend to continue to work on further improvement of the text, on the basis of critical observations and suggestions which readers may make when they have acquainted themselves with the first edition. In this connection,

the authors request readers to address their comments and suggestions on the textbook to the following address:

Institute of Economics,
U.S.S.R. Academy of Sciences,
14 Volkhonka,
Moscow

FOREWORD TO THE SECOND EDITION

The first edition of the *Political Economy* textbook, published at the end of 1954 in over six million copies, was rapidly sold out. Besides the Russian original, there were versions in many of the languages of the peoples of the U.S.S.R., and the book was also published in a number of foreign countries.

The need has arisen for a second edition of the textbook. In preparing this edition the authors have made it their task to strengthen the text with new propositions and facts reflecting the steady growth of the socialist economy of the U.S.S.R. and the countries of People's Democracy and also the further intensification of the general crisis of capitalism.

The authors have endeavoured to take into account as fully as possible the experience gained in using this textbook in higher educational institutions, in Party schools and study-groups and for purposes of individual study. During the past year the book has been discussed in many university departments of political economy, and these have sent in their comments and requests. The authors have also received a large number of letters from readers, containing suggestions regarding the text. Broad conferences of economists were held in March and April 1955 to discuss thoroughly the first edition of the book, these being attended by research workers, teachers and business executives in Moscow, Leningrad, Kiev, Minsk, Riga, Tallinn, Vilnius, Tbilisi, Erevan, Baku, Tashkent, Ashkhabad, Stalinabad, Alma-Ata and Sverdlovsk.

The authors have carefully studied all the critical observations and proposals regarding the textbook which have been made at conferences of university departments of political economy, at meetings of economists and in readers' letters, and have tried to use all of these that made for improving the book. At the same time they have maintained as their point of departure the need to keep to the present type of textbook, intended for the general reader, and not to allow its size to be enlarged to any considerable extent.

The final editing of the second edition has been carried out by comrades K. V. Ostrovityanov, D. T. Shepilov, L. A. Leontyev, I. D. Laptev, I. I. Kuzminov and L. M. Gatovksy.

Comrade V. N. Starovsky took part in the selection and editing of the statistical information contained in the book.

The authors express their thanks to all the comrades who helped in the preparation of the second edition of this textbook through their critical comments and suggestions. The authors intend to continue to work on the improvement of the textbook, and in this connection request readers to send their comments and suggestions to the following address:

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INTRODUCTION

Political economy belongs to the category of the social sciences.[1] It studies the laws of the social production and distribution of material wealth at the various stages of development of human society.

The basis of the life of society is material production. In order to live, people must have food, clothing and other material means of life. In order to have these, people must produce them, they must work.

Men produce the material means of life, i.e., carry on their struggle with nature, not as isolated individuals but together, in groups and societies. Consequently, production is always and under all circumstances *social* production, and labour is an activity of *social* man.

The process of producing material wealth presupposes the following factors: (1) human labour; (2) the subject of labour; and (3) the means of labour.

Labour is a purposive activity of the human being in the process of which he transforms and adapts natural objects so as to satisfy his own requirements. Labour is a natural necessity, an indispensable condition for man's existence. Without labour human life itself would be impossible.

Everything to which man's labour is directed is a *subject of labour*. Subjects of labour may be directly provided by nature, as, for example, wood, which is cut in the forest, or ore, which is extracted from the bowels of the earth. Subjects of labour which have previously been subjected to the action of labour (e.g., ore in a metal works, cotton in a spinning mill, yarn in a weaving mill) are called *raw materials*.

Means of labour consist of all those things with the aid of which man acts upon the subject of his labour and transforms it. To the category of means of labour belong, first and foremost, the instruments of production, together with land, buildings used for production purposes, roads, canals, storehouses,

[1] The name of this science, "political economy", comes from the Greek words "politeia" and "oikonomia". The word "politeia" means "social organisation". The word "oikonomia" is made up of two words: "oikos"—household, or household affairs, and "nomos"—law. The science of political economy received its name only at the beginning of the seventeenth century.

etc. The determining role among the means of labour is played by the *instruments of production*. These comprise the various kinds of tools which man uses in his working activity, beginning with the crude stone implements of primitive man and ending with modern machinery. The level of development of the instruments of production provides the criterion of society's mastery over nature, the criterion of the development of production. Economic epochs are distinguished one from another not by what is produced but by how material wealth is produced, with what instruments of production.

The subjects of labour and the means of labour constitute the *means of production*. Means of production in themselves, not associated with labour power, can produce nothing. For the labour process, the process of producing material wealth, to begin, labour power must be united with the instruments of production.

Labour power is man's ability to work, the sum total of the physical and spiritual forces of man, thanks to which he is able to produce material wealth. Labour power is the active element in production, which sets the means of production in motion. With the development of the instruments of production man's ability to work also develops, his skill, habits of work, and production experience.

The instruments of production, by means of which material wealth is produced, and the people who set these instruments in motion and accomplish the production of material values, thanks to the production experience and habits of work which they possess, constitute the *productive forces* of society. The working masses are the basic productive force of human society in all stages of its development.

The productive forces reflect the relationship of people to the objects and forces of nature used for the production of material wealth. In production, however, men act not only upon nature but also upon each other.

> "They produce only by co-operating in a certain way and mutually exchanging their activities. In order to produce, they enter into definite connections and relations with one another and only within these social connections and relations does their action on nature, does production, take place." (Marx, "Wage-Labour and Capital", Marx and Engels, *Selected Works*, 1950, English edition, vol. 1, p. 83.)

The definite social connections and relations formed between people in the process of the production of material wealth constitute *production relations*. Production relations include: (*a*) forms of ownership of the means of production; (*b*) the position of the various social groups in production which result from this, and their mutual relations; (*c*) the forms of distribution of products that follow from the ownership of the means of production and people's position in production.

The character of production relations depends on who owns the means of production (land, woods, waters, subsoil, raw materials, instruments of production, buildings used for production, means of communication and transport, etc.)—whether they are the property of particular persons, social groups or classes, which use these means of production in order to exploit the working people, or whether they are the property of society, whose aim is the satisfaction of the material and cultural requirements of the masses of the people, of society as a whole. The state of production relations shows how the means of production are distributed among the members of society and, consequently, how the material wealth produced by people is distributed. Thus, the determining feature, the basis of production relations is one or another form of *property in the means of production*.

The relations of production determine also corresponding relations of distribution. *Distribution* is the connecting link between production and consumption.

The products which are produced in society serve either productive or personal consumption. *Productive consumption* means the use of means of production to create material wealth. *Personal consumption* means the satisfaction of man's requirements in food, clothing, shelter, etc.

The distribution of the objects of personal consumption which are produced depends on the distribution of the means of production. In capitalist society the means of production belong to the capitalists, and in consequence the products of labour also belong to the capitalists. The workers are deprived of means of production and, so as not to die of hunger, are obliged to work for the capitalists, who appropriate the products of their labour. In socialist society the means of production are public property. In consequence, the products of labour belong to the working people themselves.

In those social formations in which commodity production exists, the distribution of material wealth takes place through *exchange of commodities*.

Production, distribution, exchange and consumption constitute a unity, in which the determining role is played by production. The particular forms of distribution, exchange and consumption so determined exert in their turn a reciprocal influence upon production, either facilitating its development or hindering it.

The sum total of the

> "relations of production constitutes the economic structure of society, the real foundation, on which rises a legal and political superstructure and to which correspond definite forms of social consciousness." (Marx, "Preface to a Contribution to the Critique of Political Economy," Marx and Engels, *Selected Works*, 1950, English edition, vol. I, p. 329).

Having come into existence, the superstructure exercises in its turn a reciprocal active influence on the basis, hastening or hindering the development of the latter.

Production has a technical aspect and a social aspect. The technical aspect of production is studied by the natural and technical sciences: physics, chemistry, metallurgy, engineering, agronomy and others. Political economy studies the social aspect of production, the *social-production*, i.e., the *economic*, relations between people. "Political economy", wrote V. I. Lenin, "is not at all concerned with 'production' but with the social relations between people in production, the social system of production." (Lenin, "Development of Capitalism in Russia", *Works*, vol. III, pp. 40–1.)

Political economy studies production relations in their interaction with the productive forces. The productive forces and the production relations as a unity constitute the *mode of production*.

The productive forces are the most mobile and revolutionary factor in production. The development of production begins with changes in the productive forces—first of all with changes and development in the instruments of production, and thereafter corresponding changes also take place in the sphere of production relations. Production relations between men, which develop in dependence upon the development of the productive forces, themselves in turn actively affect the productive forces.

The productive forces of society can develop uninterruptedly only where the production relations correspond to the nature of the productive forces. At a certain stage of their development the productive forces outgrow the framework of the given production relations and come into contradiction with them. The production relations are transformed from being forms of development of the productive forces into fetters upon them.

As a result, the old production relations sooner or later give place to new ones, which correspond to the level of development which has been attained and to the character of the productive forces of society. With the change in the economic basis of society its superstructure also changes. The material premises for the replacement of old production relations by new ones arise and develop within the womb of the old formation. The new production relations open up scope for the development of the productive forces.

Thus an economic law of the development of society is the law of *obligatory correspondence* of production relations to the nature of the productive forces.

In society based on private property and the exploitation of man by man, conflicts between the productive forces and the production relations are expressed in the form of class struggle. In these conditions the replacement of an old mode of production by a new one is effected by way of social revolution.

Political economy is an historical science. It is concerned with material production in its historically determined social form, with the economic laws which are inherent in particular modes of production. *Economic laws* express the essential nature of economic phenomena and processes, the internal, causal connection and dependence existing between them.

The laws of economic development are objective laws. They arise and operate on the basis of definite economic conditions independent of men's will. Men can understand these laws and utilise them in society's interests, but they can neither abolish nor create economic laws.

The utilising of economic laws in class society always has a class character: the advanced class of each social formation makes use of economic laws to serve the progressive development of society, while the moribund classes resist this.

Each mode of production has its own basic economic law.

This basic economic law expresses the essence of the given mode of production and determines its main aspects and line of development.

Political economy

> "must first investigate the special laws of each separate stage in the evolution of production and exchange, and only when it has completed this investigation will it be able to establish the few quite general laws which hold good for production and exchange as a whole". (Engels, *Anti-Dühring*, 1936, Lawrence & Wishart edition, p. 165.)

Consequently, the development of the various social formations is governed both by their own specific economic laws and also by those economic laws which are common to all formations, e.g., the law of obligatory correspondence of the production relations to the character of the productive forces. Hence social formations are not only marked off one from another by the specific economic laws inherent in each given mode of production, but also are linked together by a few economic laws which are common to all formations.

Political economy studies the following basic types of production relations which are known to history: *the primitive-communal system, the slave-owning system, feudalism, capitalism, socialism.* The primitive-communal system is a pre-class system. The slave-owning system, feudalism and capitalism are different forms of society based on the enslavement and exploitation of the working masses. Socialism is a social system which is free from exploitation of man by man.

Political economy investigates how social production develops from lower stages to higher stages, and how the social orders which are based on exploitation of man by man arise, develop and are abolished. It shows how the entire course of historical development prepares the way for the victory of the socialist mode of production. It studies, furthermore, the economic laws of socialism, the laws of the origin of socialist society and its subsequent development along the road to the higher phase of communism.

Thus *political economy is the science of the development of the social-productive, i.e., economic, relations between men. It elucidates the laws which regulate the production and distribution of material wealth in human society at the different stages of its development.*

The method of Marxist political economy is the method of dialectical materialism. Marxist-Leninist political economy is built up by applying the fundamental propositions of dialectical and historical materialism to the study of the economic structure of society.

Unlike the natural sciences—physics, chemistry, etc.—political economy cannot make use in its study of the economic structure of society of experiments or tests carried out in artificially created laboratory conditions which eliminate phenomena that hinder examination of a process in its purest form. "In the analysis of economic forms neither microscopes nor chemical reagents are of use. The force of abstraction must replace both." (Marx, *Capital*, vol. I, Kerr edition, p. 12.)

Every economic system presents a contradictory and complicated picture. The task of scientific research consists in revealing by means of theoretical analysis the deep-seated processes and fundamental features of the economy which lie behind the outward appearance of economic phenomena and express the essential character of the particular production relations concerned, abstracting these from secondary features.

What emerges from such scientific analysis is *economic categories*, i.e., concepts which represent the theoretical expression of the real production relations of the particular social formation concerned, such as, for example, commodity, value, money, economic accounting, profitability, work-day, etc.

Marx's method consists of gradually ascending from the simplest of economic categories to more complex ones, which corresponds to the progressive development of society on an ascending line, from lower stages to higher. When such a procedure is used in investigating the categories of political economy, *logical* investigation is combined with *historical* analysis of social development.

Marx, in his analysis of capitalist production relations, singles out first of all the everyday relationship which is the simplest of all and the most frequently repeated—the exchange of one commodity for another. He shows that in the commodity, this cell-form of capitalist economy, the contradictions of capitalism are laid up in embryo. With analysis of the commodity as his point of departure, Marx explains the origin of money, discloses the process of transforming money into capital, the essential nature of capitalist exploitation. Marx shows how

social development leads inevitably to the downfall of capitalism, to the victory of communism.

Lenin pointed out that political economy must be expounded in the form of the characterisation of the successive periods of economic development. In conformity with this, in the present course of political economy, the basic categories of political economy—commodity, value, money, capital, etc.—are examined in the historical order of succession in which they arose at different stages in the development of human society. Thus, elementary concepts concerning commodities and money are presented already when pre-capitalist formations are being described. These categories are later set forth in fully-developed form when capitalist economy, in which they attain their full development, is being studied. The same order of exposition will also be employed when socialist economy is dealt with. An elementary notion of the basic economic law of socialism, of the law of planned, proportional development of the national economy, of distribution according to work done, and of value, money, etc., will be given in the section devoted to the transitional period from capitalism to socialism. An expanded treatment of these laws and categories will be given in the section "The Socialist System of National Economy".

Political economy, unlike history, does not undertake to study the historical process of society's development in all its concrete variety. It provides basic concepts concerning the fundamental features of each system of social economy. Besides political economy there are also a number of other scientific disciplines which are concerned with the study of economic relations in the various branches of the national economy on the basis of the laws discovered by political economy—industrial economics, agricultural economics, etc.

Political economy studies, not some transcendental questions detached from life, but very real and living questions which affect the vital interests of men, society, classes. Are the downfall of capitalism and the triumph of the socialist system of economy inevitable; do the interests of capitalism contradict those of society and of the progressive development of mankind; is the working class capitalism's grave-digger and the bearer of the idea of the liberation of society from capitalism—all these and similar questions are answered differently by different economists, depending on which class's interests they voice.

That is just why there does not exist one single political economy for all classes of society, but instead several political economies: *bourgeois* political economy, *proletarian* political economy, and also the political economy of the *intermediate* classes, petty-bourgeois political economy.

It follows from this, however, that those economists are quite wrong who assert that political economy is a neutral, non-party science, that political economy is independent of the struggle between classes in society and not connected either directly or indirectly with any political party.

Is it possible in general for a political economy to exist which is objective, impartial and does not fear the truth? Certainly this is possible. Such an objective political economy can only be the political economy of that class which has no interest in slurring over the contradictions and sore places of capitalism, which has no interest in preserving the capitalist order: the class whose interests merge with the interests of liberating society from capitalist slavery, whose interests coincide with the interests of mankind's progressive development. Such a class is the working class. Therefore an objective and disinterested political economy can only be that which is based on the interests of the working class. This political economy is the political economy of Marxism-Leninism.

Marxist political economy is a very important component of Marxist-Leninist theory.

The great leaders and theoreticians of the working class, K. Marx and F. Engels, were the founders of proletarian political economy. In his work of genius, *Capital*, Marx revealed the laws of the rise, development and downfall of capitalism, and showed the economic grounds for the inevitability of socialist revolution and the establishment of the dictatorship of the proletariat. Marx and Engels worked out in general terms the theory of the transition period from capitalism to socialism and of the two phases of communist society.

The economic teachings of Marxism underwent further creative development in the works of V. I. Lenin, founder of the Communist Party and the Soviet State, brilliant continuer of the work of Marx and Engels. Lenin enriched Marxist economic science by generalising the new experience of historical development, created the Marxist teaching on imperialism, revealed the economic and political nature of

imperialism, provided the initial propositions for the basic economic law of modern capitalism, worked out the fundamentals of the theory of the general crisis of capitalism, created a new, complete theory of socialist revolution, and worked out scientifically the basic problems of the building of socialism and communism.

Lenin's great companion-in-arms and pupil, J. V. Stalin, put forward and developed a number of new propositions in political economy, based on the fundamental works of Marx, Engels and Lenin which had created a really scientific political economy.

Marxist-Leninist economic theory is creatively developed in the resolutions of the Communist Party of the Soviet Union and of the fraternal Communist Parties and the works of the pupils and companions-in-arms of Lenin and Stalin—the leaders of these parties, who have enriched economic science with new conclusions and propositions on the basis of generalising the practice of the revolutionary struggle and of the building of socialism and communism.

Marxist-Leninist political economy is a powerful weapon of ideas in the hands of the working class and of all working mankind in their struggle for emancipation from capitalist oppression. The living strength of the economic theory of Marxism-Leninism consists in the fact that it arms the working class and the working masses with knowledge of the laws of the economic development of society, giving them clear prospects and confidence in the ultimate victory of Communism.

Part One

PRE-CAPITALIST MODES OF PRODUCTION

CHAPTER I

THE PRIMITIVE COMMUNAL MODE OF PRODUCTION

The Rise of Human Society

The rise of man belongs to the present, the Quaternary period of the earth's history, which science reckons as a little less than a million years. In various regions of Europe, Asia and Africa distinguished by their warm and moist climates there dwelt a highly developed species of anthropoid ape. As a result of a very long development, which included a number of transitional stages, from these remote ancestors there originated man.

The emergence of man was one of the greatest turning points in the development of nature. This turning point took place when man's ancestors *began to make implements of labour*. The fundamental difference between man and animal starts only with the making of implements, though they be the very simplest. It is well known that apes often use a stick or stone to knock fruit from a tree or to defend themselves from attack. But not a single animal has ever made even the most primitive implement. The conditions of their daily lives drove man's ancestors to make implements. Experience taught them that sharpened stones could be used for defence against attack or for hunting animals. Man's ancestors began to make stone implements, striking one stone against another. In this way a start was made in the making of implements. With the making of implements labour begins.

Thanks to labour the fore-paws of the anthropoid ape were converted into the hands of man. Remains of the ape-man—a transitional stage from ape to man—found by archaeologists afford evidence of this. The ape-man's brain was much smaller than the human brain, but his hand was already comparatively little different from that of man. It follows that the hand is not only an organ of labour, but also its product.

As hands became freed for acts of labour, man's ancestors acquired an ever more upright gait. Once the hands were occupied with labour the final transition to an upright gait

took place, and this played a very important part in making man.

Man's ancestors lived in hordes, or herds; the first men also lived in herds. But between men there arose a link which did not, and could not, exist in the animal world: the link through labour. Men made implements jointly and jointly they applied them. Consequently, the rise of man was also the rise of *human society*, the transition from the zoological to the social condition.

Men's common labour led to the rise and development of articulate speech. *Language* is the means, the implement by which men communicate with one another, exchange opinions and achieve mutual understanding.

The exchange of thoughts is a constant and vital necessity, since without it the common activities of men in their struggle with the forces of nature, and the very existence of social production, are impossible.

Labour and articulate speech had a decisive influence in perfecting man's organism, in the development of his *brain*. The development of language is closely linked with the development of thought. In the process of labour man's circle of perceptions and conceptions was widened, his sensory organs were perfected. Man's labour activities became conscious acts as distinct from the instinctive activities of animals.

Thus, labour is "the prime basic condition for all human existence, and this to such an extent that, in a sense, we have to say that labour created man himself". (Engels, "The Part Played by Labour in the Transition from Ape to Man", Marx and Engels, *Selected Works*, 1950, English edition, vol. II, p. 74.) Thanks to labour, human society arose and began to develop.

Conditions of Material Life. The Development of the Implements of Labour

In primitive times man was extremely dependent on his natural surroundings; he was completely weighed down by the difficulties of existence, by the difficulties of his struggle with nature. The process of mastering the elemental forces of nature went on extremely slowly, since the implements of labour were extremely primitive. Man's first implements were roughly chipped stones and sticks. They were like artificial extensions

of his bodily organs: the stone, of his fist, the stick, of his outstretched arm.

Men lived in groups whose numbers did not exceed a few dozen persons: a greater single number could not have provided food for themselves. When groups met clashes sometimes took place between them. Many groups perished from hunger or became the prey of wild animals. In these conditions labour in common was for men the only possible form of labour and an absolute necessity.

For a long time primitive man lived mainly by means of *food gathering* and *hunting*, both carried out collectively with the help of the simplest implements. What was jointly obtained was jointly consumed. Cannibalism occurred among primitive men as a consequence of the precariousness of the food supply. In the course of many thousands of years, as though groping their way, by means of an extremely slow accumulation of experience, men learned to make the simplest implements suitable for striking, cutting, digging and the other very simple activities which then almost exhausted the whole sphere of production.

The discovery of fire was a great victory for primitive man in his struggle with nature. At first men learned to make use of fire which had arisen naturally. They saw lightning set fire to a tree, observed forest fires and the eruptions of volcanoes. The fire which had been obtained by chance was long and carefully preserved. Only after many thousands of years did man learn the secret of making fire. With more advanced production of implements men observed that fire came from friction and learned to make it.

The discovery of fire and its application gave men dominion over specific natural forces. Primitive man had finally broken away from the animal world: the long epoch of his becoming human had been completed. Thanks to the discovery of fire the conditions of material life for man changed fundamentally. First, fire could be used to prepare food, as a result of which the number of edible objects available to man was increased: it became possible to eat fish, meat, starchy roots, tubers and so on prepared with the help of fire. Secondly, fire began to play an important part in making the implements of production. Thirdly, it also afforded protection against cold, thanks to which it became possible for men to spread over the greater part of the world. Fourthly, fire afforded a defence against wild beasts.

For a long time hunting remained the most important source of the means of existence. It provided men with skins for clothes, bones with which to make implements, and meat which influenced the further development of the human organism and primarily the development of the brain.

As his physical and mental development progressed man became able to perfect his implements. A stick with a sharpened end served for hunting. Then he began to fix sharpened stones to the stick. Stone-tipped spears, stone axes, scrapers and knives, harpoons and fish-hooks appeared. These implements made possible the hunting of large animals and the development of fishing.

Stone remained the chief material for implement-making for a very long time. The epoch when stone implements predominated, which lasted for hundreds of thousands of years, is called the *Stone Age*. Only later did man learn to make implements of metal; at first of native metal, in the first instance copper (but copper, being a soft metal, was not widely used to make implements), later of bronze (an alloy of copper and tin), and finally of iron. Thus, after the Stone Age the *Bronze Age* followed, and after that the *Iron Age*.

The earliest traces of the smelting of copper in Hither Asia date from the fifth to fourth millennia B.C. In Southern and Central Europe the smelting of copper arose in approximately the third to second millennia B.C. The oldest traces of bronze in Mesopotamia date from the fourth millennium B.C.

The earliest traces of the smelting of iron have been discovered in Egypt and Mesopotamia; they date from before 2000 B.C. In Western Europe the Iron Age began about 1000 B.C.

The invention of the *bow and arrow*, with the appearance of which hunting began to provide more of the necessities of life, was an important landmark on the road to improving the implements of labour. The development of hunting led to the origin of primitive cattle-breeding. Hunters began to domesticate animals. The dog was domesticated earlier than other animals, and later goats, cattle, pigs and horses.

The origin of primitive *agriculture* was a further great stride in the development of society's productive forces. While gathering fruits and roots of plants, primitive men began to notice that grains which were dropped on the ground sprouted. Thousands of times this remained uncomprehended, but sooner

or later the connection of these phenomena was established in primitive man's mind, and he began to cultivate plants. Thus agriculture arose.

For a long time it remained extremely primitive. The earth was broken up by hand, at first with a simple stick, then with a stick with a hooked end, a hoe. In the river valleys the seeds were scattered on the mud which had been brought down by the river floods. The domestication of animals made possible the use of cattle for draught purposes. Later, when men learned to smelt metal, and metal implements appeared, their application made agricultural labour more productive. Tillage acquired a firmer basis. Primitive tribes began to adopt a settled mode of life.

The Production Relations of Primitive Society. Natural Division of Labour

Production relations are determined by the character and condition of the productive forces.

In primitive communal society the basis of production relations is communal property in the means of production. Communal property corresponds to the character of the productive forces in this period. The implements of labour in primitive society were so crude that they prevented primitive man from struggling with the forces of nature and wild animals single-handed. "This primitive type collective or co-operative production", Marx wrote, "was, of course, the result of the weakness of the individual and not of the socialisation of the means of production." ("Rough drafts of Marx's Letter to Vera Zasulich", Marx and Engels, *Works*, Russian edition, vol. XXVII, p. 681.)

Hence came the necessity for collective labour, for common property in land and other means of production as well as in the products of labour. Primitive men had no conception of private ownership of the means of production. Only certain implements of production, those which were also implements of defence against wild animals, were their private property, used by separate members of the commune.

Primitive man's labour created no overplus beyond what was essential for life, that is no *surplus product*. In such conditions there could be no classes or exploitation of man by man in primitive society. Social property extended only to small

communities which were more or less isolated from one another. As Lenin put it, the social character of production here embraced only the members of one community.

The labour activity of men in primitive society was based on simple co-operation. *Simple co-operation* is the simultaneous application of more or less considerable labour force to perform work of the same kind. Even simple co-operation gave primitive men the possibility of performing tasks which would have been unthinkable for a single man (for example, in hunting large animals).

In the extremely low level of development of productive forces which then existed the meagre food was divided equally. There could be no other division, since the products of labour scarcely sufficed to satisfy the most essential needs: if one member of a primitive community received more than the share which was equal for all, then someone else would be doomed to starvation and death. Thus, *equal distribution* of the products of common labour was inevitable.

The custom of equal division was deeply rooted among primitive peoples. It has been observed by travellers living among tribes at a low level of social development. More than a hundred years ago the great naturalist Darwin made a voyage round the world. Describing the life of tribes on Tierra del Fuego he relates the following incident: The Tierra del Fuegans were given a piece of canvas; they tore the canvas into completely equal parts so that each one should have an equal share.

The *basic economic law of primitive communal society* consisted in the securing of the vitally necessary means of existence with the help of primitive implements of production, on the basis of communal ownership of the means of production, by means of common labour and the equal distribution of the products.

As the implements of production are developed, division of labour arises. Its simplest form was the *natural division of labour*, i.e., division of labour dependent on sex and age, between men and women, between adults, children and old people.

The famous Russian traveller Miklukho-Maklai, who in the second half of the nineteenth century studied the life of the New Guinea Papuans, thus describes the collective process of labour in tillage. Several men stand in a row and thrust sharpened sticks deep into the soil and then, with one heave, raise a great lump of earth. The women follow after them crawling on their knees. In their hands

they have sticks with which they break up the soil raised by the men. Children of various ages go behind the women, rubbing the soil out with their hands. After the soil has been crumbled the women, using little sticks, make depressions in the soil and bury seeds or plant roots in them. Labour here is collective in character, and at the same time there exists division of labour by sex and age.

As productive forces developed, the natural division of labour gradually became stable and consolidated. The specialisation of men in the sphere of hunting, of women in the sphere of gathering vegetable food and housekeeping, led to a certain increase in the productivity of labour.

Clan Society. The Matriarchal Clan. The Patriarchal Clan

While the process of man's separation from the animal world was taking place people lived in herds or hordes as their immediate ancestors had done. Subsequently, in connection with the rise of primitive economy and the growth of population, the *clan organisation of society* gradually came into existence.

In those times only people in kinship relation with one another could unite for common labour. Primitive implements of production limited the possibility of collective labour within the narrow framework of a group of people linked by kinship and life together. Primitive man was usually hostile to anyone who was not tied to him by kinship and life together. The clan was a group at first consisting of a few dozen persons in all and linked by the bond of blood relationship. Every such group existed separately from other such groups. With the passage of time the clan's numbers increased, reaching several hundred persons. The habit of common existence developed; the benefits of common labour more and more compelled men to stay together.

Morgan, a student of the life of primitive peoples, described the clan structure which was still preserved among the Iroquois Indians in the middle of the last century. Hunting, fishing, the gathering of fruits of the earth and tillage were the basic occupations of the Iroquois. Labour was divided between men and women. Hunting and fishing, the making of weapons and implements of labour, clearance of the soil, the building of huts and fortifications were the men's duties. The women carried out the basic field work, gathered the harvest and stored it, cooked, made clothing and earthenware and gathered wild fruit, berries, nuts and tubers. The land was the

clan's common property. The heavier work—cutting down trees, clearance of the land for arable, large hunting expeditions—was carried out in common. The Iroquois lived in so-called "great houses" accommodating twenty families and more. Such a group had common stores where their stock of provisions was kept. The woman at the head of the group divided the food among the separate families. In time of warfare the clan chose itself a war chief who had no material benefits; with the end of warfare his power ceased.

At the first stage of clan society[1] woman had the leading position and this followed from the material conditions of men's life at that period. Hunting with the help of the most primitive implements, which was the men's business, could not completely secure the community's livelihood; its results were more or less fortuitous. In such conditions even the embryonic forms of agriculture and cattle-breeding (the domestication of animals) were of great economic significance. They were a more reliable and constant source of livelihood than hunting. But tillage of the soil and cattle-breeding, so long as they were carried on by primitive methods, were predominantly the occupation of the women who remained near the domestic hearth while the men were hunting. Throughout a lengthy period woman played the dominant part in the clan community. Kinship was reckoned in the maternal line. This was the maternal or *matriarchal* clan (matriarchy).

In the course of further development of the productive forces when nomadic breeding of cattle (pastoral economy) and a more developed agriculture (corn-growing), which were the men's concern, began to play a decisive part in the life of the primitive community, the matriarchal clan was replaced by the paternal or *patriarchal* clan (patriarchy). The dominant position passed to the man. He put himself at the head of the clan community. Kinship began to be reckoned in the paternal line. The patriarchal clan existed in the last period of primitive communal society.

The absence of private property, of a class division of society and of the exploitation of man by man precluded the possibility of the State appearing.

> "In primitive society . . . there were yet no signs of the existence of the State. We find the predominance of custom,

[1] This is the same as that society which Engels, in his *Origin of the Family, Private Property and the State*, following Lewis H. Morgan, calls "gentile" society. The Latin "gens" meant the same as the Gaelic "clann". *Editor, English edition.*

authority, respect, the power enjoyed by the elders of the tribe; we find this power sometimes accorded to women . . . but nowhere do we find a special category of people who are set apart to rule others and who, in the interests and with the purpose of rule, systematically and permanently command a certain apparatus of coercion, an apparatus of violence . . ." (Lenin, "The State", a lecture delivered at the Sverdlov University, July 11, 1919, *Selected Works*, Twelve-volume English edition, vol. XI, p. 643.)

The Rise of Social Division of Labour and Exchange

With the advance to cattle-breeding and agriculture there arose the social division of labour, that is, the division of labour under which at first different communities, and then individual members of communities as well, began to engage in differing forms of productive activity. The *separation of the pastoral tribes* was the *first* great social division of labour.

The pastoral tribes engaged in breeding cattle achieved substantial successes. They learned to care for the cattle in such a way that they received more meat, wool and milk. This first big social division of labour already led to what was for that age a noticeable rise in the productivity of labour.

For a long time in the primitive community there was no basis for exchange; the whole product was obtained and consumed in common. Exchange first originated and developed between clan communities, and for a long time was fortuitous.

With the appearance of the first great social division of labour the situation changed. Among the pastoral tribes there appeared a certain surplus of cattle, milk products, meat, hides and wool. At the same time they experienced a need for products of the soil. In their turn the tribes engaged in agriculture achieved as time went on considerable successes in the output of agricultural produce. Tillers of the soil and breeders of cattle required products which they could not produce within their own economy. All this led to the development of exchange.

Other forms of productive activity also developed side by side with tillage of the soil and cattle-breeding. Even in the period of stone implements men learned to make vessels from clay. Later, hand weaving appeared. Finally, with the discovery of iron smelting it became possible to make metal implements of labour (the wooden plough with iron share, the iron axe)

and weapons (iron swords). It became ever more difficult to combine these forms of labour with tillage of the soil or pastoral labour. In the communities men engaged in handicraft gradually separated out. The handiwork of the craftsmen—blacksmiths, weapon-makers, potters and so on—began more and more frequently to be offered for exchange. The field of exchange considerably widened.

The Rise of Private Property and Classes. The Breakdown of Primitive Communal Society

Primitive communal society came to full flower under matriarchy. The patriarchal clan already concealed in itself the seeds of the breakdown of the primitive communal structure.

The production relations of primitive communal society up to a certain period corresponded to the level of development of the productive forces. In the last stage of patriarchy, however, with the appearance of new, more improved implements of production (the Iron Age), the production relations of primitive society ceased to correspond to the new productive forces. The narrow framework of communal property and the equal distribution of the products of labour began to act as a brake on the development of new productive forces.

Formerly it had been possible to work a field only by the joint labour of dozens of men. In such conditions common labour was a necessity. With the development of the implements of production and the growth of the productivity of labour one family was now in a position to work a plot of land and secure for itself the essential means of existence. Thus the perfecting of implements of production made possible the advance to an individual economy, which was more productive in those historical conditions. Joint labour and a communal economy became less and less necessary. While common labour demanded common property in the means of production, individual labour demanded private property.

The origin of private property is inseparably linked with the social division of labour and the development of exchange. At first exchange was carried out by the heads of the clan communities—by the elders or patriarchs. They took part in barter deals as representatives of the communities. What they exchanged was the property of the community. But as social

division of labour developed further, and exchanges expanded, the clan chiefs gradually began to treat communal property as their own.

At first the chief item of exchange was *cattle*. Pastoral communities had large flocks of sheep and goats and herds of cattle. The elders and patriarchs, who already held great power in society, became accustomed to dispose of these herds as their own property. Their right in fact to dispose of the herds was also recognised by the other members of the community. Thus first of all cattle, and then gradually all the implements of production, became *private property*. Common property in land was preserved longest of all.

The development of the productive forces and the appearance of private property led to the breakdown of the clan. The clan fell apart into large patriarchal families. Then, within the large patriarchal family, individual family units began to separate out, converting the implements of production, utensils and cattle into their own private property. The ties of clan became weakened with the growth of private property. The *village community* began to occupy the place of the clan community. The village, or neighbourhood, community as distinct from the clan consisted of people not necessarily bound by kinship. House, household goods, cattle, all were in the private ownership of individual families. On the other hand, woods, meadows, water and other natural amenities, and also for a definite period the ploughland, were communal property. At first the ploughland was periodically re-divided between the members of the community, but later it began to pass into private hands.

The rise of private property and exchange was the beginning of a great turning-point in the whole structure of primitive society. The development of private property and property distinctions led to the result that within the communities different interests arose among different groups. In these conditions the individuals who in the community held the offices of elders, military leaders and priests used their position to enrich themselves. They acquired a considerable share of the communal property. The bearers of these social offices became more and more distinct from the mass of members of the community, forming a clan aristocracy and more and more frequently passing on their power to their heirs. Aristocratic

families became at the same time the richest families. The mass of the members of the community gradually fell into one form or another of economic dependence on the rich and aristocratic upper stratum.

With the growth of productive forces, man's labour applied to cattle-breeding and agriculture began to yield greater means of subsistence than were essential to maintain man's life. The possibility arose of appropriating *surplus labour* and the *surplus product*, that is, the surplus of labour and product above what was needed to maintain the worker himself and his family. In these conditions it became advantageous not to kill men taken prisoner, as had formerly been done, but to make them work, converting them into slaves. The slaves were seized by the more aristocratic and richer families. In its turn slave labour led to a further growth of inequality, since the households using slaves grew rich quickly. In conditions of the growth of property inequality the rich began to convert into slaves not only prisoners but also their own impoverished and indebted fellow-tribesmen. Thus the first *class division of society* arose, the division into slave-owners and slaves. There appeared the *exploitation* of man by man, that is, the uncompensated appropriation by some of the products of the labour of others.

The relations of production prevailing in primitive communal society broke down, perished and made way for new relations of production, suited to the character of new productive forces.

Common labour gave way to individual labour, social property to private property, clan society to class society. The whole history of mankind from this period onwards, right up to the building of socialist society, became the *history of class struggle*.

Bourgeois ideologists represent matters as if private property had existed for ever. History refutes such inventions and convincingly bears witness to the fact that all people passed through the stage of primitive communal society based on communal property, and knowing no private property.

Social Conceptions of the Primitive Epoch

Primitive man, weighed down by need and the difficulties of his struggle for existence, at first did not distinguish himself from his natural surroundings. For a long time he had no really coherent conceptions either of himself or of the natural conditions of his existence.

Only gradually did very limited and crude conceptions of himself and of the conditions surrounding his life begin to take shape in the mind of primitive man. There could not be the slightest trace of religious views which, as the defenders of religion assert, were allegedly inherent in the human consciousness from the very outset. Only later did primitive man—not being in a position to understand and explain the phenomena of nature and social life around him—in his conceptions begin to people the world around him with supernatural beings, spirits and magical powers. He attributed spiritual existence to the forces of nature. This was the so-called animism (from the Latin *anima*—the spirit, soul). Primitive myths and primitive religion were born of these dim conceptions in men of their own nature and that around them. In them the primitive equality of the social structure was reproduced. Primitive man, not knowing class division and property inequality in real life, introduced no corresponding subordination in his imaginary world of spirits. He divided the spirits into his own and others', friendly and hostile. Division of the spirits into higher and lower appeared only when the primitive community was breaking down.

Primitive man felt himself an inseparable part of the clan. He could not imagine himself outside the clan. A reflection of this in ideology was the cult of the ancestral progenitors of the clan. It is characteristic that in the course of the development of language "I" and "my" arise much later than other words. The power of the clan over the individual was exceedingly strong. The breakdown of the primitive community was accompanied by the origin and spread of conceptions associated with private property. This was clearly reflected in myths and religious conceptions. When private property relations began to be established, and property inequality appeared, among many tribes there arose the custom of imposing a religious prohibition—"taboo"—on goods appropriated by the leaders or rich families (the inhabitants of the Pacific Islands used the word "taboo" for everything that was prohibited or taken out of common use). With the breakdown of the primitive community and the rise of private property, the power of religious prohibition began to be used to reinforce the new economic relations and property inequality which had come into existence.

BRIEF CONCLUSIONS

(1) Thanks to labour, men emerged from the animal world and human society arose. The distinctive feature of human labour is the making of implements of production.

(2) The productive forces of primitive society were on an exceedingly low level, the implements of production were extremely primitive. This necessitated collective labour, social property in the means of production and equal distribution.

In the primitive community there was no property inequality or private property in the means of production; there were no classes or exploitation of man by man. Social ownership of the means of production was confined within a narrow framework; it was the property of small communities more or less isolated from one another.

(3) The basic economic law of the primitive community consists in the securing of man's vitally necessary means of subsistence with the help of primitive implements of production, on the basis of communal property in the means of production, by means of common labour and the equal distribution of the products.

(4) Working together, men for a long time performed uniform labour. The gradual improvement of implements of production promoted the rise of a natural division of labour, depending on sex and age. Further perfecting of the implements of production and the mode of obtaining the means of life, the development of cattle-breeding and agriculture led to the appearance of the social division of labour and exchange, of private property and property inequality, to the division of society into classes and to the exploitation of man by man. Thus the growing forces of production entered into contradiction with the relations of production, as a result of which primitive communal society gave way to another type of relations of production—the slave-owning system.

CHAPTER II

THE SLAVE-OWNING MODE OF PRODUCTION

Rise of the Slave-Owning System

Slavery is the first and crudest form of exploitation in history. In the past it existed among almost all peoples.

The transition from the primitive community to the slave-owning system took place for the first time in history in the countries of the ancient East. The slave-owning mode of production predominated in Mesopotamia (Sumer, Babylonia, Assyria and others), Egypt, India and China by the fourth millennium B.C. in some cases, and not later than the second millennium B.C. in others. In the first millennium B.C. the slave-owning mode of production was dominant in Transcaucasia (Urartu); from the eighth or seventh centuries B.C. to the fifth or sixth centuries A.D. a powerful slave-owning State existed in Khorezm. The culture achieved in the slave-owning countries of the ancient East greatly influenced the development of the peoples of European countries.

In Greece the slave-owning mode of production reached its height in the fifth to fourth centuries B.C. Subsequently slavery developed in the States of Asia Minor, Macedonia (from the fourth to the first centuries B.C.). The slave-owning system reached the highest stage of its development in Rome in the period from the second century B.C. to the second century A.D.

At first slavery bore a *patriarchal* or *domestic* character. There were comparatively few slaves. Slave labour was not yet the basis of production but played a subsidiary part in the economy. The aim of the economy remained the satisfaction of the demands of the large patriarchal family which had hardly any recourse to exchange. The master's power over his slaves was already unlimited but the sphere of application of slave labour was limited.

The further growth of productive forces, and the development of the social division of labour and of exchange, formed the basis of society's transition to the slave-owning system.

The advance from stone to metal implements of labour led to a considerable extension of the limits of human labour. The invention of the blacksmith's bellows enabled man to make

iron implements of labour of a durability not seen before. It became possible with the help of the iron axe to clear the land of forests and undergrowth for ploughing. The wooden plough with iron share made it possible to work comparatively large plots of land. Primitive hunting economy gave place to agriculture and cattle-breeding. Handicrafts appeared.

In agriculture, which remained the main branch of production, methods of tillage and cattle-breeding improved. New branches of agriculture arose; vine and flax growing, the growing of oil crops, and so on. The rich families' herds increased. More and more working hands were needed to look after the cattle. Weaving, metal-working, the art of pottery and other crafts gradually improved. Formerly a craft had been a subsidiary occupation of the husbandman or herdsman. Now for many people it became an independent occupation. The *separation of handicraft from agriculture* took place. This was the *second* large-scale social division of labour.

With the division of production into two large basic branches, agriculture and handicraft, there arises production directly for exchange though still in an undeveloped form. The growth in productivity of labour led to an increase in the amount of the surplus product which, with private property in the means of production, afforded the opportunity for the accumulation of wealth in the hands of a minority of society, and on this basis for the subordination of the working majority to the exploiting minority, for the conversion of labourers into slaves.

Under conditions of slavery the economy was basically a *natural* one. A *natural* economy is one in which the products of labour are not exchanged but consumed within the economy where they were produced. At the same time, however, the development of exchange took place. At first craftsmen made their products to order and then for sale on the market. At the same time, many of them continued for long to have small plots of land and to cultivate them to satisfy their needs. In the main the peasants carried on a natural economy, but were compelled to sell a certain part of their produce on the market in order to be able to buy the craftsman's wares and to pay money taxes. Thus gradually part of the products of the craftsman's and peasant's labour became commodities.

A *commodity* is a product prepared not for direct consumption but for exchange, for sale on the market. The production of

objects for exchange is the characteristic feature of *commodity economy*. Thus the separation of handicraft from agriculture, the rise of handicraft as an independent occupation, signified the birth of commodity production.

So long as exchange bore a fortuitous character one product of labour was directly exchanged for another. As exchange expanded and became a regular phenomenon, a commodity for which any other commodity would be willingly given gradually emerged. Thus money arose. *Money* is a universal commodity by which all other commodities are evaluated and which serves as an intermediary in exchange.

The development of handicraft and exchange led to the formation of *towns*. Towns arose in remote antiquity, at the dawn of the slave-owning mode of production. At first the town was little to be distinguished from the village, but gradually handicraft and trade concentrated in towns. The towns became more and more distinct from villages by the type of occupation of the inhabitants and by their way of life.

Thus began the *separation of town from country* and the rise of the *antithesis* between them.

As the quantity of exchangeable commodities increased, the territorial limits of exchange also expanded. *Merchants* arose who in pursuit of gain purchased commodities from the producers, carried the commodities to markets sometimes quite far from the place of production, and sold them to the consumers.

The expansion of production and exchange considerably intensified inequality of property. Money, working cattle, implements of production and seeds accumulated in the hands of the rich. The poor were compelled more and more frequently to turn to them for loans, mainly in kind, but sometimes also in money. The rich lent them implements of production, seeds and money, making bondsmen of their debtors and, when the latter did not pay their debts, made them slaves and took their land. Thus *usury* arose. It brought a further growth of riches to some, debt bondage to others.

The land also began to be converted into private property. It began to be sold and mortgaged. If a debtor could not pay the usurer, he had to abandon his land and sell himself and his children into slavery. Sometimes, on one pretext or another, the large landowners seized part of the meadows and pastures from the peasant village communes.

Thus proceeded the concentration of landed property, wealth in money and masses of slaves in the hands of the rich slave-owners. The small peasant economy more and more broke down, while the slave-owning economy grew strong and expanded, spreading to all branches of production.

> "The continued increase of production and with it the increased productivity of labour enhanced the value of human labour-power. Slavery, which had been a nascent and sporadic factor in the preceding stage, now became an essential part of the social system. The slaves ceased to be simply assistants, but were now driven in scores to work in the fields and workshops." (Engels, "The Origin of the Family, Private Property and the State"; Marx and Engels, *Selected Works*, English edition, vol. II, p. 283.)

Slave labour became the basis of society's existence. Society split into two basically opposed classes, slaves and slave-owners.

Thus the *slave-owning mode of production* was established.

Under the slave-owning system the population was divided into free men and slaves. The free had all civil, property and political rights (except women, who were essentially in the position of slaves). The slaves were deprived of all these rights and had no right of admission to the ranks of the free. In their turn the free were divided into a class of large landowners, who were also large-scale slave-owners, and a class of small producers (peasants, craftsmen), the well-to-do strata of which also made use of slave labour and were slave-owners. The priests, who played a great part in the period of slavery, were attached, because of their status, to the class of large landowners and slave-owners.

Apart from the class contradiction between slaves and slave-owners there also existed a class contradiction between the large landowners and the peasants. But with the development of the slave-owning system slave labour, as the cheapest, embraced the larger part of the branches of production and became the main basis of production; and the contradiction between slaves and slave-owners became the basic contradiction of society.

Society's split into classes evoked the necessity for the State. With the growth of social division of labour and the development of exchange, separate clans and tribes came ever closer

together and combined into unions. The character of clan institutions was changed. The organs of the clan system more and more lost their popular character. They were converted into organs of dominance over the people, into organs of plunder and oppression of their own and of neighbouring tribes. The elders and military leaders of the clans and tribes became *princes* and *kings*. Formerly they had authority as people elected by the clan or union of clans. Now they began to use their power to defend the interests of the propertied upper layer, to keep a grip on their fellow clansmen falling into poverty, and to hold down the slaves. Armed retinues, courts and punitive organs served this end.

Thus *State power* arose.

> "Only when the first form of the division of society into classes appeared, only when slavery appeared, when a certain class of people, by concentrating on the crudest forms of agricultural labour, could produce a certain surplus, when this surplus was not absolutely essential for the most wretched existence of the slave and passed into the hands of the slave-owner, when in this way the existence of this class of slave-owners took firm root—and in order that it might take firm root—it was essential that the state should appear." (Lenin, "The State", *Selected Works*, English edition, vol. XI, p. 647; and in "Lenin and Stalin on the State", *Little Lenin Library*, vol. XXIII, p. 15.)

The State arose in order to hold in check the exploited majority in the interests of the exploiting minority.

The slave-owning State played a great part in the development and stabilisation of the production relations of slave-owning society. The slave-owning State held the slave masses in subjection. It grew into a widely ramified machinery for domination over and oppression of the masses of the people. The democracy in ancient Greece and Rome which bourgeois history textbooks extol was essentially a slave-owning democracy.

Production Relations of the Slave-Owning System. Position of Slaves

The production relations of slave-owning society were based on the fact that not only the means of production but also the workers in production, the slaves, were the slave-owners'

property. The slave was considered a chattel. He was at the complete and utter disposal of his owner. Slaves were not only exploited, they were bought and sold like cattle and were even killed with impunity. While in the period of patriarchal slavery the slave had been regarded as a member of the family, in the conditions of the slave-owning mode of production he was not considered even a man.

> "The *slave* did not sell his labour-power to the slave-owner, any more than the ox sells its services to the peasant. The slave, together with his labour-power, has been sold once and for all to his owner." (Marx, "Wage, Labour and Capital", *Selected Works*, English edition, vol. I, p. 77.)

Slave labour had an openly compulsory character. Slaves were made to work by means of the crudest physical force. They were driven to work with whips and were subjected to harsh punishments for the least negligence. Slaves were branded so that they could be more easily taken if they fled. Many of them wore permanent iron collars which bore their owner's name.

The slave-owner acquired the whole product of slave labour. He gave the slaves only the smallest possible quantity of the means of subsistence—sufficient to prevent them dying of hunger and to enable them to go on working for him. The slave-owner took not only the surplus product but also a considerable part of the necessary product of the slaves' labour.

The development of the slave-owning mode of production was accompanied by an increase in the demand for slaves. In a number of countries slaves as a rule had no family. The rapacious exploitation of slaves led to their rapid physical exhaustion. It was continually necessary to add to the numbers of slaves. *War* was an important source of obtaining new bondmen. The slave-owning States of the ancient East carried on constant wars with a view to conquering other peoples. The history of ancient Greece is full of wars between separate city States, between metropolis and colonies, between Greek and Oriental States. Rome carried on uninterrupted wars; at her height she conquered the greater part of the lands known at that time. Not only the warriors who had been taken prisoner, but also a considerable part of the population of the conquered lands, were enslaved.

Provinces and colonies served as another source for adding

to the numbers of slaves. They supplied the slave-owners with "living commodities" as well as with every other commodity. The slave trade was one of the most profitable and flourishing branches of economic activity. Special centres of the slave trade arose: fairs were arranged to which came traders and buyers from distant countries.

The slave-owning mode of production opened broader opportunities for the growth of productive forces than the primitive community. The concentration of a large number of slaves in the hands of the slave-owning State and of individual slave-owners made possible the use of simple co-operation of labour on a large scale. This is attested by the gigantic construction works which were executed in antiquity by the peoples of China, India, Egypt, Italy, Greece, Transcaucasia, Central Asia and others: irrigation systems, roads, bridges, military fortifications, cultural monuments.

Social division of labour developed and expressed itself in the specialisation of agricultural and handicraft production, thus creating conditions for raising the productivity of labour.

In Greece slave labour was widely applied in handicraft. Large workshops arose, *ergasteria*, in which there worked several dozen slaves at a time. Slave labour was also used in building, in mining iron ore, silver and gold. In Rome slave labour was widespread in agriculture. The Roman aristocracy owned broad estates, *latifundia*, where hundreds and thousands of slaves worked. These latifundia were created by the seizure of peasants' lands and also of unoccupied State lands.

The slave-owning latifundia, in consequence of the cheapness of slave labour and the utilisation of the advantages of simple co-operation, were able to produce grain and other agricultural produce at lower cost than the small farms of the free peasants. The small peasantry was squeezed out, fell into slavery or swelled the ranks of the impoverished sections of the town population, the lumpen-proletariat.

The contradiction between town and country, which had already arisen during the transition from the primitive communal system to the slave-owning system, grew deeper and deeper. The towns became the centres where the slave-owning nobility, the merchants, the usurers, the officials of the slave-owning State, all of whom exploited the broad masses of the peasant population, were concentrated.

On the basis of slave labour the ancient world achieved considerable economic and cultural development. But the slave-owning system could not create the conditions for any further serious technical progress. Slave labour was distinguished by extremely low productivity. The slave was not at all interested in the results of his labour. The slaves hated their labour under the yoke. Frequently they expressed their protest and indignation by spoiling the implements of labour. Therefore the slaves were given only the crudest implements, which it was difficult to spoil.

The technique of production founded on slavery remained at an exceedingly low level. Despite a certain development of the natural and exact sciences, they were hardly applied at all in production. Certain technical inventions were used only for war purposes and in building. Through the several centuries of its dominance the slave-owning mode of production went no further than the application of manual implements borrowed from the small agriculturalist and craftsman, and no further than simple labour co-operation. The basic motive force remained the physical strength of men and cattle.

The wide application of slave labour allowed the slave-owners to free themselves from all physical labour and to transfer it completely to the slaves. The slave-owners treated physical labour with scorn, considered it an occupation unworthy of a free man and led a parasitic form of life. With the development of slavery greater and greater numbers of the free population broke away from any productive activity. Only a certain part of the slave-owning upper class and of the other free population engaged in public affairs, the sciences and the arts, which attained a considerable level of development.

The slave-owning system gave birth to the *antithesis between mental and physical labour*, to the gap between them.

The exploitation of slaves by slave-owners is the main feature of the production relations of slave-owning society. At the same time the slave-owning mode of production had its peculiarities in various countries.

In the countries of the ancient East natural economy predominated to a still greater degree than in the ancient world of Europe. Here slave labour was widely applied in the State economies and those of the large slave-owners and temples. Domestic slavery was greatly developed. Huge masses of

members of peasant communities were exploited, as well as the slaves, in the agriculture of China, India, Babylonia and Egypt. Here the system of enslavement for debt acquired great importance. The member of the peasant community who did not pay his debt to the usurer, or his rent to the landowner, was compelled to work on their land for a definite time as a bond-slave.

In the slave-owning countries of the ancient East communal and State forms of ownership of land were widespread. The existence of these forms of property was linked with the system of cultivation based on irrigation. Irrigated agriculture in the river valleys of the East demanded enormous labour expenditure for the construction of dams, canals and reservoirs and the draining of marshes. All this evoked the necessity of centralising the construction and use of the irrigation systems over large territories. "Artificial irrigation is here the first condition of agriculture and this is a matter either for the communes, the provinces or the central government." (Engels, "Letter to K. Marx", June 6, 1843, Marx and Engels, *Selected Correspondence, 1846–95*, 1934, English edition, p. 67.) With the development of slavery the communal lands were concentrated in the hands of the State. The king with unlimited power became the supreme owner of the land.

The slave-owners' State, concentrating in its hands the ownership of land, imposed huge taxes on the peasants, compelled them to carry out different types of duties and thereby put the peasants in a condition of servile dependence. The peasants remained members of the rural community. But with the concentration of the land in the hands of the slave-owning State, the rural community was a firm base for oriental despotism, i.e., the unlimited autocratic power of a despotic monarch. The priestly aristocracy played an important part in the slave-owning States of the East. The great estates belonging to the temples were maintained on the basis of slave labour.

Under the slave-owning system the slave-owners in all countries expended unproductively by far the greater part of slave labour and its products: on the satisfaction of personal fancies, the accumulation of treasure, the construction of military fortifications and armies, the erection and maintenance of luxurious palaces and temples. In particular the Egyptian

pyramids, which have been preserved up to the present day, testify to the unproductive expenditure of huge masses of labour. Only an insignificant part of slave labour and its product was expended on the further expansion of production, which therefore developed exceedingly slowly. Ruinous wars led to the destruction of productive forces, the extermination of huge numbers of the peaceful population and the ruin of the culture of entire States.

The *basic economic law of the slave-owning system* consists in the production of surplus product to satisfy the demands of the slave-owners, by means of the rapacious exploitation of the slaves, on the basis of full ownership by the slave-owners of the means of production and of the slaves themselves, by the ruining and enslaving of peasants and craftsmen, and also by conquering and enslaving the peoples of other countries.

Further Development of Exchange. Merchants' and Usurers' Capital

The slave-owning economy in the main preserved its natural character. In it production was mainly for the direct consumption of the slave-owner, of his numerous hangers-on and retainers, not with a view to exchange. All the same, exchange gradually began to play a more noticeable part, particularly in the period of the greatest development of the slave-owning system. In a number of branches of production a certain part of the products of labour was regularly sold on the market—that is, was converted into commodities.

With the expansion of exchange the part played by money increased. Usually there arose as money that commodity which was the most frequently exchanged. Among many peoples, particularly among cattle-breeders, cattle first served as money. Among others salt, grain or furs became money. Gradually all other forms of money were squeezed out by metallic currency.

Metallic currency first appeared in the countries of the ancient East. Money in the form of bronze, silver and gold bars was already circulating here in the third to second millennia B.C., and in the form of coins from the seventh century B.C. In Greece in the eighth century B.C., iron money was current. In Rome even in the fifth to fourth centuries B.C. only copper money was used. Later iron and copper money were replaced by silver and gold.

The Greek city States carried on quite far-flung trade, including trade with the Greek colonies scattered along the shores of the Mediterranean and the Black Sea. The colonies regularly supplied the basic labour force—slaves—and certain forms of raw material and foodstuffs: hides, wool, cattle, grain and fish.

In Rome, as well as in Greece, apart from trade in slaves and other commodities, trade in luxury objects played a great part. These commodities were supplied from the East mainly in the shape of all sorts of tribute taken from conquered peoples. Trade was connected with plunder, piracy and the enslavement of colonies.

Under the slave-owning system money had already become not only a means of buying and selling commodities; it had also come to serve as a means for the appropriation of the labour of others by means of trade and usury. Money expended with a view to appropriating surplus labour and its product becomes *capital*, that is, a means of exploitation. Merchants' and usurers' capital were historically the first forms of capital. *Merchants' capital* is capital engaged in the sphere of commodity exchange. Merchants buying up and reselling commodities appropriated a considerable part of the surplus product created by the slaves, small peasants and craftsmen. *Usurers' capital* is capital applied in the form of loans of money, means of production or objects of consumption for the appropriation of the peasants' and craftsmen's surplus labour by means of high interest rates. The usurers also granted money loans to the slave-owning aristocracy, thus sharing in the surplus product that the latter received.

Sharpening of the Contradictions of the Slave-Owning Mode of Production

Slavery was an essential stage on mankind's road of development.

> "It was slavery that first made possible the division of labour between agriculture and industry on a considerable scale, and along with this, the flower of the ancient world, Hellenism. Without slavery, no Greek state, no Greek art and science; without slavery, no Roman Empire. But without Hellenism and the Roman Empire as a basis, also no modern Europe." (Engels, *Anti-Dühring*, 1934, English edition, p. 203.)

On the bones of generations of slaves there arose a culture which was the basis for mankind's further development. Many branches of knowledge—mathematics, astronomy, mechanics, architecture—achieved considerable development in the ancient world. The artistic objects which have come down to us from antiquity, the works of literature, sculpture and architecture have entered for ever into the treasury of human culture.

The slave-owning system, however, concealed in itself insuperable contradictions which led to its destruction. The slave-owning form of exploitation constantly destroyed the basic productive force of this society, the slaves. The struggle of the slaves against harsh forms of exploitation was more and more frequently expressed in armed risings. An uninterrupted influx of slaves and their cheapness were a condition of existence for slave-owning economy. Slaves were mainly supplied by war. The mass of free small producers, the peasants and craftsmen, formed the basis of the military power of slave-owning society. They served in the armed forces and bore on their shoulders the main burden of taxes essential for conducting war. But as a result of the competition of large-scale production based on cheap slave labour, and under the weight of burdens beyond their strength, the peasants and craftsmen were ruined. The insoluble contradiction between large latifundia and peasant farms continued to intensify.

The squeezing out of the free peasantry subverted not only the economic, but also the military and political might of the slave-owning States, and particularly Rome. Victories were replaced by defeats. Wars of conquest were replaced by defensive ones. The source of the uninterrupted supply of cheap slaves dried up. The negative aspects of slave labour appeared more and more strongly. A general fall in production took place in the last two centuries of the existence of the Roman Empire. Trade fell into confusion, formerly rich lands became poor, the population began to decline, crafts perished and towns began to be deserted.

The productive relations based on slave labour had turned into fetters for the expanded productive forces of society. The labour of slaves, completely uninterested in the results of production, had outlived itself. There had arisen the historical necessity for the replacement of slave-owning production relations by other production relations, which would change

the situation in society of the main productive force, the labouring masses. The law of the obligatory correspondence between production relations and the character of the productive forces demanded the replacement of slaves by workers who were to some extent interested in the results of their labour.

As large-scale slave-owning production became economically unprofitable the slave-owners began to set free considerable groups of slaves whose labour no longer brought them any income. Large estates were broken into small plots. These plots were handed over on definite conditions, either to former slaves who had been set free, or to formerly free citizens who were now obliged to bear a number of duties for the benefit of the landowner. The new tillers of the soil were bound to the plots of land, and could be sold together with them. But they were no longer slaves.

This was a new social stratum of small-scale producers, occupying an intermediary position between free and slave, and having a certain interest in the results of their own labour. They were called *coloni*, and were the predecessors of the medieval serfs.

Thus the elements of a new, feudal mode of production were born in the womb of slave-owning society.

Class Struggle of the Exploited against the Exploiters. Slave Revolts. Downfall of the Slave-Owning System

The history of slave-owning societies in the countries of the ancient East, in Greece and Rome shows that with the development of the slave-owning economy the class struggle of the enslaved masses against their oppressors was intensified. Slave revolts were linked with the struggle of the exploited small peasants against the slave-owning upper class, the large landowners.

The contradiction between small producers and large well-born landowners gave birth already at an early stage in the development of slave-owning society to a democratic movement among the free men which set itself the aim of destroying debt bondage, the redivision of lands, the abolition of the prerogatives of the landed aristocracy and the transfer of power to the *demos* (that is, to the people).

Of the numerous slave risings in the Roman Empire that led by Spartacus (74–71 B.C.) was particularly remarkable. The most vivid page in the history of the slaves' struggle against the slave-owners is linked with his name.

Slave risings flared up more than once throughout many centuries. Impoverished peasants joined the slaves. These risings achieved particular force in the second to first centuries B.C. and in the third to fifth centuries A.D. The slave-owners suppressed the risings with the fiercest measures.

The risings of the exploited masses, primarily of the slaves, radically undermined the former might of Rome. Blows from inside began more and more to be interconnected with blows from outside. The inhabitants of neighbouring lands who had been enslaved revolted in the fields of Italy, while at the same time their fellow-tribesmen who had remained free stormed the frontiers of the Empire, broke into its territories and destroyed Roman supremacy. These circumstances hastened the downfall of the slave-owning system in Rome.

The slave-owning mode of production achieved its greatest development in the Roman Empire. The fall of the Roman Empire was also the fall of the slave-owning system as a whole. The feudal system took the place of the slave-owning system.

Economic Views of the Slave-Owning Period

The economic views of the slave-owning period were reflected in many literary works left by poets, philosophers, historians, statesmen and public figures. In the view of these men, a slave was considered not a person but a chattel in his master's hands. Slave labour was scorned. And, since labour became predominantly the lot of slaves, there followed scorn for labour in general, as activity unworthy of a free person.

The code of laws of the Babylonian king Hammurabi (eighteenth century B.C.) provides evidence of the economic views of slave-owning Babylonia. The code defends the property and personal rights of the rich and noble slave-owners and landowners. According to the code, whoever concealed a runaway slave was punished with death. A peasant who did not pay his debt to the moneylender, or his rent to the landowner, had to give his wife, son or daughter into bond slavery until he had worked off the debt. In the ancient Indian collection "The Code of Manu" social, religious and moral injunctions sanctifying slavery are expounded. According to these laws a slave had no property. The law punished with death anyone who "gave shelter to a runaway slave".

The views of the ruling classes were reflected in religion. Thus, in

India Buddhism became widespread beginning from the sixth century B.C. Proclaiming acceptance of reality, non-resistance to violence and humility before the ruling classes, Buddhism was a religion of use to the slave-owning aristocracy which they used to strengthen their domination.

Even the outstanding thinkers of antiquity could not imagine the existence of society without slavery. For example, the Greek philosopher *Plato* (fifth to fourth centuries B.C.) wrote the first *Utopia* in the history of mankind about an ideal social system. But even in his ideal State he retained slaves. The labour of slaves, tillers of the soil and artisans, had to supply the means of existence for the higher class of rulers and warriors.

In the eyes of the greatest thinker of antiquity, *Aristotle* (fourth century B.C.), slavery was also an eternal and inevitable necessity for society. Aristotle greatly influenced the development of thought in the ancient world and in the middle ages. Though he rose high above the level of contemporary society in his scientific conjectures and anticipations, on the question of slavery Aristotle remained a prisoner of the conceptions of his age. His views on slavery amounted to the following: for the helmsman the rudder is an inanimate instrument, but the slave is an animate instrument. If implements performed their work to order, if, for example, shuttles wove of themselves, there would be no need for slaves. But since in economic life there existed many occupations demanding simple unskilled labour, Nature had made wise provision, by creating slaves. In Aristotle's opinion Nature itself had ordained that some men should be slaves and that others should rule them. Slave labour supplied free men with leisure for perfecting themselves. Hence, he concluded, the whole art of the master consisted in knowing how to use his slaves.

Aristotle gave to the science of management of resources the name "oikonomia". In his lifetime exchange, trade and usury were quite widely developed, but the economy basically preserved its natural character, producing for consumption within its own framework. Aristotle considered natural the acquisition of benefits only by means of agriculture and handicrafts; he was a partisan of *natural economy*. However, Aristotle also understood the nature of *exchange*. He found exchange with a view to consumption completely natural "because usually people have more of certain objects and fewer of others than is essential for the satisfaction of their needs". He understood the necessity for money for exchange.

At the same time Aristotle considered that trade with a view to profit, and usury, were reprehensible occupations. He pointed out that these occupations, as distinct from agriculture and handicraft, knew no limits to the acquisition of wealth.

The ancient Greeks already had a certain conception of the *division of labour* and the part it played in the life of society. Thus Plato envisaged division of labour as the basic principle of the State system in his ideal republic.

The economic conceptions of the Romans also reflected the relations of the prevailing slave-owning mode of production.

Roman writers and public men, expressing the ideology of the slave-owners, counted slaves as simple implements of production. It is to the Roman encyclopaedist *Varro* (first century B.C.) who composed, among a number of other books, a sort of handbook for slave-owners on the conduct of agriculture, that we owe the well-known division of implements into (1) the dumb (carts); (2) those which utter inarticulate sounds (cattle); and (3) those gifted with speech (slaves). In giving this definition he was expressing views generally accepted among slave-owners.

The minds of Rome, as well as of Greece, were concerned with the art of managing slaves. *Plutarch* (first to second century A.D.), the historian of the Roman era, tells of the "model" slave-owner Cato and how he bought slaves young "that is at the age when, like puppies and foals, they can be readily subjected to education and training". Later he says that "among the slaves he constantly invented methods of maintaining quarrels and disputes, for he considered agreement among them dangerous and feared it".

In ancient Rome, especially in the later period, breakdown and decay of the economy founded on the compulsory labour of slaves grew worse and worse. The Roman writer *Columella* (first century A.D.) complained: "The slaves do the greatest harm to the fields. They lend the oxen 'on the side'. They also pasture the other stock badly. They plough the land poorly." His contemporary *Pliny the Elder* said that "the latifundia have destroyed Italy and its provinces".

Like the Greeks, the Romans considered normal the natural form of economy, in which the master exchanges only his surpluses. Sometimes in the literature of that time high trading profits and usurious rates of interest were condemned. In reality, however, the merchants and usurers accumulated enormous fortunes.

In the last period of the existence of the slave-owning system voices could be already heard condemning slavery and proclaiming the *natural equality of men*. These views, understandably, met with no sympathy among the ruling class of slave-owners. As for the slaves, they were so crushed by their servitude, so downtrodden and ignorant, that they were unable to work out an ideology of their own more progressive than the obsolete ideas of the slave-owning class. This is one of the causes of the spontaneity and unorganised character of the slave revolts.

One of the sharp contradictions inherent in the slave-owning system was the struggle between large and small land-holders. The impoverished peasantry put forward the demand for the limitation of the landed property of the great slave-owners and the re-allocation of lands. This was the essence of the agrarian reform for which the brothers *Gracchi* struggled (second century B.C.).

In the period of the decline of the Roman Empire when an absolute majority of the population of town and country, both slaves and free,

saw no way out of the situation, there developed a severe crisis in the ideology of slave-owning Rome.

A new religious ideology, *Christianity*, emerged on the basis of the class contradictions of the dying Empire. The Christianity of that period expressed the protest of slaves, of the ruined masses of the peasantry and craftsmen, and of declassed elements, against slavery and oppression. On the other hand, Christianity reflected the mood of broad strata of the ruling classes, who sensed the utter hopelessness of their situation. That is why, in the Christianity of the decline of the Roman Empire, by the side of grim warnings to the rich and powerful, there are also calls to humility and to seek salvation in life beyond the grave.

In the following centuries Christianity finally became the religion of the ruling classes, a spiritual weapon for the defence and justification of the exploitation and oppression of the labouring masses.

BRIEF CONCLUSIONS

(1) The slave-owning mode of production arose thanks to the growth of the productive forces of society, the appearance of a surplus product, the origin of private property in the means of production, including land, and the appropriation of the surplus product by the owners of the means of production.

Slavery is the first and crudest form of the exploitation of man by man. The slave was the full and unlimited property of his master. The slave-owner, at his will, commanded not only the slave's labour, but also his life.

(2) The State first took shape with the rise of the slave-owning system. It arose, as a result of the splitting of society into irreconcilably hostile classes, as the machine for suppressing the exploited majority of society by the exploiting minority.

(3) Slave-owning economy was in the main of a natural character. The ancient world broke down into numerous separate economic units satisfying their requirements by their own production. Trade was mainly in slaves and luxury articles. The development of exchange gave rise to metallic currency.

(4) The basic economic law of the slave-owning mode of production consists in the production of surplus product, to satisfy the demands of the slave-owners, by the rapacious exploitation of the slaves on the basis of full ownership by the slave-owners of the means of production and the slaves themselves, by the ruining and enslaving of peasants and craftsmen,

and also by conquering and enslaving the peoples of other countries.

(5) A comparatively high culture (art, philosophy, the sciences) arose on the basis of slavery. Its fruits were enjoyed by the small upper class of slave-owning society. The social consciousness of the ancient world corresponded to the mode of production based on slavery. The ruling classes and their ideologists did not consider the slave a man. Physical labour, being the lot of the slaves, was considered a shameful occupation, unworthy of a free man.

(6) The slave-owning mode of production caused an increase in the productive forces of society compared with the primitive communal system. But later the labour of the slaves, who were completely without interest in the results of production, outlived its usefulness. The spread of slave labour and the lack of any legal protection whatsoever for the slaves resulted in the destruction of the basic productive force of society—the labour force—and the ruin of the small free producers—the peasants and artisans. This predetermined the inevitable downfall of the slave-owning system.

(7) Slave revolts shook the slave-owning system and hastened its destruction. The feudal mode of production came to replace the slave-owning mode of production; instead of the slave-owning form of exploitation there arose the feudal form of exploitation, which gave some scope for the further development of the productive forces of society.

CHAPTER III

THE FEUDAL MODE OF PRODUCTION

Rise of Feudalism

The feudal system existed, with particular features of one sort or another, in almost all countries.

The era of feudalism covers a long period. In China the feudal system existed for more than two thousand years. In Western Europe feudalism covers a number of centuries, from the time of the fall of the Roman Empire (fifth century) to the bourgeois revolution in England (seventeenth century) and in France (eighteenth century); in Russia from the ninth century to the peasant reform of 1861; in Transcaucasia from the fourth century to the seventies of the nineteenth century; among the peoples of Central Asia from the seventh or eighth centuries right up to the victory of the proletarian revolution in Russia.

In *Western Europe* feudalism arose out of the breakdown of Roman slave-owning society, on the one hand, and the decay of the tribal system of the conquering tribes, on the other; it was established as a result of the interaction of these two processes.

Elements of feudalism, as has already been said, had originated in the womb of slave-owning society in the form of the system of *coloni*. The *coloni* were obliged to work the land of their master, the large landowner, to make him a definite money payment or hand over a considerable share of the harvest, and to fulfil various types of duty. Nevertheless, the *coloni* had more interest in their labour than the slaves, since they had their own holdings.

Thus there arose new productive relations which achieved full development in the feudal period.

Tribes of Germans, Gauls, Slavs and other peoples living in different parts of Europe destroyed the Roman Empire. The slave-owners' power was overthrown and slavery fell. The large latifundia and handicraft workshops based on slave labour broke down. The population of the former Roman Empire consisted of large landowners (former slave-owners, who had adopted the system of *coloni*), freed slaves, *coloni*, small peasants and artisans.

The conquering tribes, at the time of the subjugation of

Rome, had a communal system which was in decline. The *village community*, which the Germans called the *mark*, played a great part in the social life of these tribes. The land, except for the large landed possessions of the clan nobility, was common property. The forests, heaths, pastures and ponds were used in common. Fields and meadows were re-divided every few years among the members of the community. Gradually, however, the land around the homestead, and later also the ploughland, began to be inherited by separate families. The distribution of land, the investigation of matters concerning the community, the settlement of disputes between its members, were dealt with by the community meeting and by the elders and judges elected by it. At the head of the conquering tribes stood their military leaders who, together with their retinues, held considerable tracts of land.

The tribes which conquered the Roman Empire acquired a great part of its State lands and some part of the lands of the large proprietors. Forests, meadows and pastures remained in common use, but the ploughland was divided into separate holdings. Later the divided lands became the private property of the peasants. Thus a broad stratum of independent small peasantry was formed.

The peasants, however, were unable to preserve their independence for long. Property inequality between different members of the village community inevitably developed on the basis of private ownership of land and other means of production. Well-to-do and poor families appeared among the peasants. With the growth of property inequality members of the community who had grown rich began to acquire power over the community. The land was more and more concentrated in the hands of the rich families, the clan aristocracy and military leaders. The peasants fell into personal dependence on the large landowners.

The conquest of the Roman Empire hastened the break-up of the clan system among the conquering tribes.

In order to maintain and strengthen their power over the dependent peasants the large landowners had to reinforce the organs of State power. Military leaders, relying on the clan aristocracy and the members of their retinues, began to concentrate power in their hands and became kings—monarchical rulers.

A number of new States headed by kings were formed on the ruins of the Roman Empire. The kings generously handed out the land they had seized for the lifetime and afterwards for the hereditary possession of their attendants, who had to bear military service in return. The Church, which served as an important support for the royal power, received much land. The land was worked by peasants who now had to fulfil a number of duties for their new masters. Huge landholdings passed into the hands of members of the royal retinue and servants, the clerical authorities and the monasteries.

The lands distributed on such conditions were called feods (fiefs). Hence comes the name of the new social structure, *feudalism.*

The gradual conversion of peasant land into the property of feudal lords and the enserfment of the peasant masses (the process of feudalisation) took place in Europe in the course of a number of centuries (from the fifth or sixth to the ninth or tenth centuries). The free peasantry was ruined by incessant military service, plunder and impositions. Turning for help to the large landowner, the peasants converted themselves into his dependents. Frequently the peasants were compelled to yield themselves into the "protection" of the feudal lord; otherwise it was impossible for a defenceless man to exist in conditions of ceaseless wars and bandit raids. In such cases property rights in the plot of land passed to the feudal lord, and the peasant could work his plot only on condition of fulfilling various duties for the lord. In other cases the royal lieutenants and officials, by means of deceit and force, appropriated the land of free peasants, making the latter acknowledge their power.

In different countries the process of feudalisation took different courses, but the essence of the matter was everywhere the same: the formerly free peasants fell into personal dependence on the feudal lords who had seized their land. Sometimes this dependence was weaker, sometimes stronger. In course of time the differences in the position of former slaves, *coloni* and free peasants disappeared, and they were all converted into a single mass of *peasant serfs.* Gradually there was established the position which is described by the medieval phrase: "No land without its lord." (i.e., without its feudal master). The kings were the supreme landowners.

Feudalism was an essential stage in the historical development

of society. Slavery had outlived itself. In these circumstances the further development of productive forces was only possible on the basis of the labour of the mass of dependent peasantry, possessing their own holdings, their own implements of production and having some interest in labour.

As the history of mankind testifies, however, it is not obligatory that every people should pass through all stages of social development. For many peoples conditions arise under which they have the possibility of missing one stage of development or another and of passing immediately to a higher stage.

In *Russia* patriarchal slavery arose when the primitive community was breaking down. The development of society here, however, went in the main not along the road of slave-owning, but of feudalisation. The Slavonic tribes, even when the clan system was predominant among them, beginning from the third century A.D., attacked the Roman slave-owning Empire, struggled to free the towns of the northern Black Sea coast which were in its power and played a great part in the overthrow of the slave-owning system. The transition from the primitive community to feudalism took place in Russia at a time when the slave-owning system had long since fallen in the countries of Western Europe, and when feudal relations had been stabilised there.

The village community among the Eastern Slavs was called *verv* or *mir*. The community had meadows, forests and ponds in common use, but the ploughland began to pass into the possession of separate families. An elder was at the head of the community. The development of private landowning led to the gradual breakdown of the village communities. The elders and tribal princes seized the land. The peasants (*smerds*) were at first free members of the community, but later fell into dependence on the large landowners (*boyars*).

The Church became the largest feudal owner. Grants by the princes, endowments and legacies made it the possessor of broad lands and the richest estates of those times.

In the period of the formation of the centralised Russian State (fifteenth to sixteenth centuries) the Grand Princes and Tsars began to "place" (Russian, *pomeshchat*) their attendants and serving people on the land, i.e., to give them land and peasants on condition of their owing military service. Hence the names *pomest'e* (fee or estate) and *pomeshchik* (lord of the manor).

At that time the peasants were not yet finally bound to the landowner and the land; they had the right to transfer from one lord to another. At the end of the sixteenth century the lords, with a view to increasing the production of grain for sale, intensified their exploitation of the peasants. In connection with this the State in 1581 deprived the peasants of the right of transfer from one landlord to another. The peasants were completely bound to the land belonging to the lords and were thus converted into serfs.

In the period of feudalism agriculture played a predominant part and tillage was its most important branch. Gradually, in the course of a number of centuries, methods of grain-growing improved and market gardening, fruit-growing, vine-growing and butter-making developed.

In the early period of feudalism the *fallow system* predominated, but in forested regions the "slash and burn" system of tillage predominated. A plot of land was sown several years consecutively with some crop until the soil was exhausted. Then they transferred to another plot. Later an advance to the "three-field" system took place; in this the arable was divided into three fields of which, in turn, one was used for winter crops, the second for spring crops and the third remained fallow. The three-field system began to spread in Western Europe between the ninth and the tenth and in Russia from the eleventh and twelfth centuries onwards. It remained dominant throughout many centuries, being preserved until the nineteenth century and, in many countries, even to the present time.

Agricultural equipment in the early period of feudalism was poor. The primitive wooden plough (*sokha*) with iron share, the sickle, scythe and spade served as implements of labour. Later, the iron plough and harrow began to be used. The grinding of grain was for a long time carried out by hand, until wind and water mills became widespread.

Production Relations of Feudal Society. Exploitation of Peasants by Feudal Lords

The property of the feudal lords in land and their incomplete property rights over the peasant serf were the basis of the production relations of feudal society. The peasant serf was not a slave. He had his own holding. The feudal lord could no longer kill him, but he could sell him. By the side of the property of the feudal lords there also existed the individual property of

peasants and craftsmen in their implements of production and in their private holdings, based on personal labour.

Large-scale feudal landed property was the basis for the exploitation of peasants by the lords. The feudal lord's own demesne occupied part of the land. The feudal lord granted another part of the land on extortionate conditions for use by the peasants. The lord allotted land to the peasants to "hold", hence the expression "holding". The peasant holding was the means by which the lord secured his labour force. With hereditary possession of his holding, the peasant was obliged to work for the lord, to till the lord's soil with the help of his own implements and stock, or else to give the lord his surplus product in kind or in money.

Such a system of economy inevitably presupposed the peasants' personal dependence on the landlord—a system of extra-economic compulsion. "If the lord had not had direct power over the person of the peasant he would not have been able to compel to work for him a man who possessed land and tilled on his own account." (Lenin, "Development of Capitalism in Russia", *Works*, fourth Russian edition, vol. III, p. 159.)

The peasant serf's working time was divided into necessary and surplus time. During the necessary time, the peasant created the product necessary for his own existence and the existence of his family. During the surplus time he created the surplus product which was appropriated by the lord. The surplus labour of the peasant who worked on the lord's demesne, or the surplus product created by the peasant in his own holding and appropriated by the lord, constitute feudal *land-rent*.

Feudal rent frequently swallowed up not only the peasant's surplus labour, but also part of his necessary labour. The basis of this rent was feudal ownership of land, linked with the direct domination of the feudal lord over the peasants dependent on him.

Under feudalism there existed three forms of land-rent: *labour-rent*, *rent in kind* and *money-rent*. In all these forms of rent the exploitation of the peasants by the landlords stood out in unconcealed form.

Labour-rent, or "week-work" (*barshchina*), predominated in the early stages of feudalism's development. Under the system of week-work the peasant worked for a specified part of the week,

three or more days, with his own implements of production (plough, draught animals, etc.) on his master's estate and the remaining days worked on his own holding. Thus by week-work the necessary and surplus labour of the peasant were clearly distinguished in time and space. The sphere covered by week-work was exceedingly broad. The peasant ploughed, sowed and gathered the harvest, pastured cattle, worked as a carpenter, chopped timber for the lord, and carted agricultural produce and building materials using his own horse.

Under the week-work system the peasant serf was interested in raising the productivity of labour only while working on his own holding. When working on the lord's land the peasant had no such interest. The feudal lord kept overseers who compelled the peasants to work.

In the course of further development labour-rent was replaced by *rent in kind*, or *quitrent paid in produce*. Under this system the peasant was obliged to deliver regularly to the lord a definite quantity of grain, cattle, poultry and other agricultural produce. Most frequently the quitrent was combined with remnants of week-work duties, i.e., with the peasant's work on the lord's demesne.

With rent in kind the peasant expended the whole of his labour, both necessary and surplus, according to his own discretion. Necessary and surplus labour were no longer divided as clearly as with labour-rent. Here the peasant became relatively more independent. This created a certain stimulus to further raising the productivity of labour.

At a later stage of feudalism, when exchange had become comparatively widespread, money-rent arose, or *quitrent in money*. Money-rent is characteristic of the period of the break-down of feudalism and the appearance of capitalist relations. Various forms of feudal-rent often existed simultaneously.

> "In all these forms of ground-rent, whether labour-rent, rent in kind, or money-rent (as a mere change of form of rent in kind), the rent-paying party is always supposed to be the actual tiller and possessor of the land, whose unpaid surplus labour passes directly into the hands of the landlord." (Marx, *Capital*, Kerr edition, vol. III, p. 932.)

Striving to increase their income, the feudal lords imposed every sort of exaction on the peasant. In many cases they had

monopolistic possession of mills, smithies and other enterprises. The peasant was compelled to use them for exceedingly high payments in kind or money. Apart from quitrent in kind or money paid to the feudal lord, the peasant had to pay all sorts of imposts to the State, local taxes and, in some countries, a tithe, i.e., a tenth of the harvest to the Church.

Thus the labour of peasant serfs was the basis of the existence of feudal society. Peasants not only grew agricultural produce. They worked in the feudal lord's estates as craftsmen, erected castles and monasteries and made roads. Towns were built by the hands of peasant serfs.

The economy of the feudal lords, particularly in the early stages of its development, was basically a *natural economy*. Each feudal estate, consisting of the lord's demesne and the villages belonging to him, lived an isolated economic life, rarely engaging in exchange. The requirements of the feudal lord and his family, and the needs of the numerous household were at first satisfied by the produce from the seigniorial economy and supplied by the peasants paying quitrent. Fairly large estates had a sufficient quantity of craftsmen, mostly among the household serfs. These craftsmen made clothing and footwear, made and repaired weapons, hunting equipment and agricultural implements, and erected buildings.

The peasant economy was also a natural one. The peasants engaged not only in agricultural labour but also in domestic handicraft, mainly working up raw materials produced in their holdings—spinning, weaving, making footwear and farm implements.

For a long time a characteristic of feudalism was the *combination of agriculture*, as the basic branch of the economy, with *domestic handicraft*, which was auxiliary to it. The few imported products without which it was impossible to manage, as for example, salt and articles of iron, were at first supplied by wandering traders. Later, in connection with the growth of towns and handicraft, the division of labour and development of exchange between town and country made a great step forward.

The exploitation of dependent peasants by feudal lords was the main feature of feudalism among all peoples. However, in particular countries the feudal system had its own special features. In countries of the East feudal relations were for a

long time combined with slave relations. Thus it was in China, India, Japan and a number of other countries. Feudal State property in land was of great significance in the East. For example, in the period of the Bagdad Khalifate, under the dominance of the Arabs (particularly in the eighth to ninth centuries A.D.), a large section of the members of peasant communities lived on the Khalif's land and paid feudal-rent direct to the State. Feudalism in the East was also characterised by the vitality of patriarchal clan relations, which were utilised by the feudal lords as a means of intensifying exploitation of the peasants.

In the agricultural lands of the East, where irrigated agriculture is of decisive significance, the peasants were in bondage to the feudal lords because not only the land, but also the water resources and irrigation works were the property of the feudal State or of individual feudal lords. Among nomad peoples the land was used as pasture. The size of feudal land-owning was determined by the quantity of cattle. The large cattle-owning feudalists were, in fact, large-scale owners of pasture. They held the peasantry in dependence and exploited them.

The *basic economic law of feudalism* consisted in the production of surplus product to satisfy the demands of the feudal lords, by means of the exploitation of dependent peasants on the basis of the ownership of the land by the feudal lords and their incomplete ownership of the workers in production—the serfs.

The Medieval Town. Craft Guilds. Merchant Guilds

Towns had already arisen under the slave-owning system. Such towns as Rome, Florence, Venice and Genoa in Italy; Constantinople and Alexandria in the Near East; Paris, Lyons and Marseilles in France; London in England; Samarkand in Central Asia, and many others, were inherited by the Middle Ages from the epoch of slavery. The slave-owning system fell, but the towns remained. The large slave-owning workshops broke down, but the crafts continued to exist.

In the period of the early Middle Ages the towns and crafts developed slowly. Town craftsmen produced articles for sale, but a large part of the objects of consumption which they needed they obtained from their own holdings. Many of them

had small ploughlands, gardens and cattle. The women engaged in the spinning of flax and wool to make clothing. This showed the limited extent of markets and exchange.

In the countryside the working up of agricultural raw material was at first a subsidiary occupation of the husbandman. Then, from among the peasants there began to emerge craftsmen who served their own village. The craftsmen's productivity of labour increased. It became possible to produce more articles than were necessary for the feudal lord or the peasants of one village. The craftsmen began to settle around feudal castles, at the walls of monasteries, in large villages and other trading centres. Thus, gradually, usually on the waterways, new towns arose (in Russia, for example, Kiev, Pskov, Novgorod, Vladimir).

In the course of time crafts became a more and more profitable business. The skill of the craftsman was perfected. The feudal lord began to buy the product of handicraft from the townsmen. He was no longer satisfied with the work of his own serfs. The more developed crafts were finally isolated from agriculture.

The towns which had arisen on the lands of lay and clerical feudal lords were subject to their authority. Townsmen owed a number of duties to the feudal lord, paid him quitrent in kind or money, and were subject to his administration and court. The town population very soon began the struggle for freedom from feudal dependence. Partly by force, partly by means of purchase, the towns obtained for themselves the right of self-administration, holding courts, minting coinage and collecting taxes.

The town population consisted mainly of craftsmen and traders. In many towns serfs fleeing from their landlords found refuge. The town acted as the centre of commodity production, as distinct from the countryside where natural economy prevailed. The growth of competition from the fugitive serfs who had crowded into the towns, the struggle against exploitation and oppression by the feudal lords, caused the craftsmen to unite into *guilds*. The guild system existed in the feudal period in almost all countries.

Guilds arose in Byzantium and Italy in the ninth and tenth centuries, and later in the whole of Western Europe and Russia. In the countries of the East (Egypt, China), and in the towns of the Arab Khalifate guilds arose even earlier than in the European

countries. The guilds united the town craftsmen of one specific trade or several similar ones. Only the master craftsmen were full members of the guilds. The master craftsmen had a small number of journeymen and apprentices. The guilds carefully preserved the exclusive right of their members to engage in that craft and regulated the process of production: they laid down the length of the working day, the number of journeymen and apprentices with each master, defined the quality of raw materials and finished products and their prices, and frequently purchased raw material in common. Methods of work established by long tradition were obligatory for all. Strict regulation had as its aim the prevention of any single master from raising himself above the others. Apart from this the guilds served as mutual aid organisations.

The guilds were a feudal form of craft organisation. In the first period of their existence they played a certain positive part in assisting the strengthening and development of urban crafts. However, with the growth of commodity production and the expansion of the market, the guilds gradually became a brake on the development of productive forces.

The strict regulation of craft production by the guilds fettered the craftsmen's initiative and hindered the development of technique. In order to limit competition the guilds began to create all sorts of hindrances to those wishing to receive the rights of a master. For the apprentices and journeymen, whose numbers had considerably increased, the possibility of becoming independent masters had practically ceased. They were compelled to remain for their whole life in the position of hired wage workers. In these conditions the relations between a master and his subordinates lost their former more or less patriarchal character. The masters intensified the exploitation of their subordinates, making them work fourteen to sixteen hours a day for insignificant pay. The journeymen began to unite into secret brotherhoods to defend their interests. The guilds and town authorities persecuted the journeymen's brotherhoods in every way.

The richest section of the town population were the *merchants*. Trading activity developed both in the towns surviving from the period of slavery and in the towns which arose under feudalism. The organisation of guilds in the crafts found their counterpart in the organisation of guilds in trade. Merchant guilds in the feudal period existed almost everywhere. In the East they are known from the ninth century, in Western

Europe from the ninth or tenth century, and in Russia from the twelfth century. The basic task of the merchant guilds was the struggle with competition from outside merchants, the regulation of weights and measures, the defence of merchants' rights from the infringements of the feudal lords.

In the ninth to tenth centuries there already existed considerable trade between the countries of the East and Western Europe. Kievan Rus[1] took an active part in this trade. The Crusades (eleventh to thirteenth centuries) played a great part in the expansion of trade, opening the Near Eastern markets for Western European merchants. A flood of gold and silver from the East swept into Europe. Money began to appear in places where it had formerly not been used. The Italian towns, particularly Genoa and Venice, which carried the crusaders to the East in their trading vessels and supplied them with provisions, took a direct part in the conquest of Eastern markets.

For a long time the Mediterranean ports were the main centres of the trade linking Western Europe with the East. But apart from this, trade developed widely in the north German and Netherland towns scattered along the trade routes of the North and Baltic Seas. Here in the fourteenth century there arose a commercial union of towns, the German Hansa, which united in the following two centuries about eighty towns of various European countries. The Hanseatic League carried on trade with England, Scandinavia, Poland and Russia. In exchange for the produce of West European handicraft—Flemish and English cloth and linen, German metal articles, French wines—they exported from the north-eastern districts of Europe furs, hides, fats, honey, grain, timber, pitch, linen and some handicraft products. From the countries of the East merchants brought spices, pepper, cloves, nutmegs, perfumes, dyes, cotton and silk fabrics, carpets and other commodities.

In the thirteenth to fourteenth centuries the Russian towns of Novgorod, Pskov and Moscow carried on extensive trade with Asia and Western Europe. Novgorod merchants, on the one hand, traded with the peoples of the North (the coast of the Arctic Ocean and the Trans-Ural area) and, on the other hand, carried on regular trade with Scandinavia and Germany.

The growth of towns and development of trade greatly influenced the feudal countryside. The economy of the feudal lords began to be drawn into the market. In order to purchase luxury objects and articles of town crafts the feudal lords needed money. In connection with this it was convenient for

[1] This word was the description of the ancient Russian State, centred on Kiev, which existed for several centuries until its overthrow by the Mongol conquest in the mid-thirteenth century—*Editor, English edition.*

the feudal lords to transfer the peasants from week-work and quitrent in kind to money quitrent. Feudal exploitation was still further intensified with the transfer to money quitrents. The contradiction between town and country which had arisen under slavery became still more acute.

Classes and Estates of Feudal Society. The Feudal Hierarchy

Feudal society was divided into two basic classes, feudal lords and peasants. "Feudal society represented a division of classes under which the vast majority—the peasant serfs—were completely subjected to an insignificant minority—the landlords, who owned the land." (Lenin, "The State", *Selected Works*, English edition, vol. XI, p. 651.)

The class of feudal lords was not a uniform whole. Petty feudal lords paid tribute to those more powerful, helped them in war, but on the other hand took advantage of their patronage. The patron was called the *baron* or *seigneur*, and the one patronised the *vassal* (*vavassar*). The barons (*seigneurs*), in their turn, were vassals of still greater barons or lords (tenants-in-chief). Thus the feudal hierarchy was formed.

As the ruling class, the feudal lords stood at the head of the State. They formed one estate, the baronage (nobility, lords). The lords held the honourable position of first estate and had wide political and economic privileges.

The *clergy* (Church and monastic) was also a very large landowner. It held extensive lands with a numerous dependent and serf population and was the ruling estate together with the nobles.

The broad base of the "feudal ladder" was the *peasantry*. The peasants were subordinate to the landowner and were under the supreme power of the most powerful feudal lord, the king. The peasantry was an estate without political rights. The landlords were able to sell their serfs and made wide use of this right. The serf-owners subjected the peasants to physical punishment. Lenin called serfdom "serf slavery". The exploitation of peasant serfs was almost as cruel as the exploitation of slaves in the ancient world. Nevertheless, the serf could work part of the time on his own holding and could, to a certain degree, be independent.

The contradiction between feudal lords and peasant serfs was the basic class contradiction of feudal society. The struggle of the exploited peasantry against the feudal lords was carried on throughout the whole period of feudalism and assumed particular intensity at the end of this period, when serf exploitation had been intensified to extremes.

In the towns freed from feudal dependence power was in the hands of the rich townsmen—merchants, usurers, owners of town lands and large house-owners. The artisans of the various crafts, who formed the main mass of the town population, often stood out against the town nobility, winning their participation in the town administration together with the town aristocracy. The small craftsmen and journeymen struggled against the master craftsmen and merchants who were exploiting them.

By the end of the feudal period the town population was already considerably stratified. On the one hand, there were rich merchants and master craftsmen, on the other a broad mass of journeymen and apprentices, the town poor. The lower classes of the towns entered into the struggle against the united forces of the town nobility and feudal lords. This struggle fused into a single stream with the struggle of the peasant serfs against feudal exploitation.

The kings (in Russia the Grand Princes and later the Tsars) were considered the holders of supreme power. Beyond the boundaries of their own holdings, however, the significance of the kings' power in the period of early feudalism was insignificant. Frequently this power remained nominal. The whole of Europe was divided into a multitude of large and small States. The large feudatories were complete masters of their own possessions. They issued laws, saw to their execution, held courts of justice, inflicted penalties, maintained their own forces, raided their neighbours and did not always refrain from highway robbery. Many of them independently minted coinage. The smaller feudal lords also had exceedingly wide rights in respect of the people under their power; they tried to vie with the great lords.

In the course of time feudal relations created an exceedingly confused tangle of rights and obligations. Endless disputes and quarrels arose between the feudal lords. They were usually decided by force of arms in internecine wars.

Development of the Productive Forces of Feudal Society

In the feudal period a higher level of productive forces was achieved compared with the period of slavery.

In the sphere of agriculture the technique of production was improved; the iron plough and other iron implements of labour were used more extensively. New branches of cultivation arose; vine-growing, wine-making and market gardening developed considerably. Livestock husbandry grew and particularly horse-breeding, which was linked with the feudal lords' military service; butter-making developed. Sheep-breeding became widespread in a number of regions. Meadows and pastures were extended and improved.

Gradually the implements of labour of the craftsmen and methods of processing raw material were improved. Former crafts began to become specialised. Thus, for example, the blacksmith had formerly produced all metal articles. In the course of time the crafts of the armourer, nail-maker, cutler and locksmith separated from the trade of blacksmith, and the craft of the shoemaker and the saddlemaker were separated from the craft of the leather worker. In the sixteenth to seventeenth centuries in Europe the spinning wheel became widespread. In 1600 the ribbon loom was invented.

The improvement of the smelting and working of iron was of decisive significance in perfecting the implements of labour. At first iron was produced by an exceedingly primitive method. In the fourteenth century the water-wheel was first used to work bellows for the blast, and heavy hammers to crush the ore. With the increased draught in the furnaces, instead of a malleable mass, a molten mass, cast iron, was obtained. With the application of gunpowder in warfare and the appearance of firearms (in the fourteenth century) much metal was required for cannon balls; from the beginning of the fifteenth century they began to be cast from pig-iron. More and more metal was needed for the production of agricultural and other implements. In the first half of the fifteenth century the first blast furnaces appeared. The invention of the compass helped the further development of navigation and seafaring. The invention and spread of printing was of great significance.

China had achieved a considerable development of its productive forces and culture by the sixth to eleventh centuries, in many respects

surpassing the Europe of that time. The Chinese were the first to invent the compass, gunpowder, writing-paper and a very simple form of printing.

The development of the productive forces of feudal society more and more clashed with the narrow framework of feudal production relations. The peasantry, under the yoke of feudal exploitation, were in no condition to increase further the output of agricultural produce. The productivity of unfree peasant labour was exceedingly low. In the town the growth of the craftsman's productivity of labour came up against the obstacles created by guild statutes and rules. The feudal system was characterised by the slow rate of development of production, by routine and by the authority of tradition.

The productive forces which had grown up in the framework of feudal society demanded new relations of production.

The Birth of Capitalist Production in the Womb of the Feudal System. The Role of Merchant Capital

In the feudal period commodity production gradually developed, town handicrafts expanded and peasant economy was more and more drawn into exchange.

Production by small craftsmen and peasants, based on private property and personal labour creating products for exchange, is called *simple commodity production.*

As has already been said a product made for exchange is a commodity. Different commodity producers expend on the production of the same commodities an unequal quantity of labour. This depends on the different conditions in which they have to work: commodity producers possessing improved implements expend on the production of one and the same commodity less labour in comparison with other commodity producers. In addition to differences in the implements of labour, differences in strength, dexterity, the skill of the worker and so on have their effect. The market, however, is not concerned in what conditions and with what implements one commodity or another is produced. For identical commodities on the market one and the same amount of money is paid independent of those individual conditions of labour in which they were produced.

Therefore, commodity producers whose individual labour

expenditure, because of worse conditions of production, are higher than average cover only part of these costs when selling their commodities and ultimately are ruined. On the other hand, commodity producers whose individual labour expenditure thanks to better conditions of production are lower than average, are in an advantageous position when selling their commodities, and grow rich. This strengthens competition. A differentiation takes place among small commodity producers. The majority of them become more and more impoverished, an insignificant section grow rich.

The divided condition of the country under feudalism was a great hindrance in the way of the development of commodity production. The feudal lords established at will dues on imported goods, exacted tribute for passage through their possessions, and thus created serious obstacles to the development of trade. The requirements of trade and the economic development of society in general evoked the necessity of abolishing feudal separatism. The growth of handicraft and agricultural production, the development of the social division of labour between town and country, led to the intensification of economic links between different districts within the country and to the formation of a *national market*. The formation of a national market created the economic preconditions for the centralisation of State power. The nascent town bourgeoisie was concerned to remove feudal obstacles and supported the creation of a centralised State.

The kings, relying on the broader stratum of non-noble landowners (gentry), on the "vassals of their vassals" and also on the rising towns, dealt the feudal nobility decisive blows and strengthened their own dominance. They became not only nominal, but also effective sovereigns in the State. Large national States emerged in the form of absolute monarchies. The overcoming of feudal separatism and the creation of centralised State power facilitated the appearance and development of capitalist relations.

The formation of a *world market* was also of great significance for the rise of the capitalist order.

In the second half of the fifteenth century the Turks seized Constantinople and the whole of the eastern part of the Mediterranean Sea. The most important artery along which passed the trade routes between Western Europe and the East was cut. In the search for the

sea route to India, Columbus discovered America in 1492; while in 1498 Vasco da Gama, having sailed round Africa, discovered the sea route to India.

As a result of these discoveries the focal point of European trade moved from the Mediterranean Sea to the Atlantic Ocean, the bulk of trade passed to the Netherlands, England and France. Russia played a noticeable role in European trade.

With the rise of world trade and a world market handicrafts were no longer in a position to satisfy the growing demand for goods. This hastened the transition from small-scale artisan production to large-scale *capitalist production*, based on the exploitation of wage-workers.

The advance from the feudal mode of production to the capitalist was made in two ways: on the one hand, the differentiation among the small commodity producers gave birth to capitalist entrepreneurs; on the other hand, merchant capital, through the merchants, directly subordinated production to itself.

The guilds were able to limit competition and differentiation among the craftsmen so long as commodity production was little developed. With the development of exchange, competition became stronger and stronger. The masters working for a wider market in part obtained the alteration of guild restrictions, and in part simply evaded them. They lengthened the working day of the journeymen and apprentices, increased their number and applied more productive methods of labour. The richest master craftsmen gradually became capitalists, while the poorer masters, apprentices and journeymen became wage-workers.

Merchant capital assisted the rise of capitalist production by breaking down the natural economy. Merchant capital first appeared as an intermediary in the exchange of the commodities of the small producers—the craftsmen and the peasants—and in the realisation by the feudal lords of part of the surplus product which they appropriated. Later, the merchant began to buy up regularly from the small producers the commodities they had made and then to resell them on a wider market. The merchant became an *engrosser*. With the growth of competition and the appearance of the engrosser the position of the mass of the craftsmen radically changed. The impoverished masters were compelled to turn for help to

the trader or engrosser, who loaned them money and raw materials on condition that they should sell him the finished articles at a pre-arranged low price. Thus, the small producers fell into economic dependence on merchant capital.

Gradually many impoverished masters found themselves dependent in this way on the rich engrosser. He distributed raw material to them—for example, thread to be worked up into cloth for a definite payment—and thus became a *putter-out*.

The impoverishment of the craftsman resulted in the engrosser now supplying him not only with raw materials, but also with implements of labour. Thus the craftsman was deprived of the last semblance of independent existence, and was finally converted into a wage-worker, while the engrosser was becoming an industrial capitalist.

The craftsmen of yesterday, gathered in the capitalist's workshop, carried out uniform work. Soon, however, it was discovered that certain of them were more successful with one operation, others with another. Therefore it was more advantageous to entrust to each one just that part of the work at which he was most skilful. Thus, in the workshops with a fairly considerable number of workers *division of labour* was gradually introduced.

Capitalist enterprises using wage-workers who worked by hand on the basis of division of labour were called *manufactories*.[1]

The first manufactories already appeared in the fourteenth and fifteenth centuries in Florence and some medieval city republics of Italy. Then, in the sixteenth to eighteenth centuries, manufactories in various branches of production—cloth, linen, silk, watchmaking, arms and glass—spread in all European countries.

In Russia manufactories began to arise in the seventeenth century. At the beginning of the eighteenth century under Peter I they began to develop at faster rates. Among them were arms, cloth, silk and other manufactories. Iron foundries, mines and salt works were created in the Urals.

As distinct from the West European factories, which were based on wage labour, Russian enterprises in the seventeenth to eighteenth centuries, while employing some free wage labour, in the main employed the labour of peasant serfs and bound workers. Manufactories based on free wage labour began to become widespread from the end of the eighteenth century. This process was particularly intensified in the last decades before the abolition of serfdom.

[1] "Manufacture" literally means production by hand.

The process of the breakdown of feudal relations was also taking place in the countryside. With the development of commodity production the power of money grew. The feudal serf-owners substituted money payments for the peasants' payments in kind. The peasants had to sell the products of their labour and pay the feudal lords the money they had obtained. Chronic need of money appeared among the peasants. Engrossers and usurers made use of this to make the peasants their bondmen. Feudal oppression intensified, and the position of the serfs deteriorated.

The development of money relations gave a great impetus to the *differentiation of the peasantry*, i.e., its stratification into different social groups. The overwhelming majority of the peasantry became impoverished, stifled from overwork and were ruined. Side by side with this kulak land-grabbers began to appear in the countryside, exploiting their fellow-villagers by means of loans at extortionate rates and buying up from them agricultural produce, cattle and farm equipment at ruinous prices.

Thus, capitalist production came into existence in the womb of the feudal system.

Primitive Capital Accumulation. Forcible Seizure of Peasant Lands

Capitalist production presupposes two basic conditions: one, the presence of numbers of propertyless people, personally free and at the same time deprived of the means of production and livelihood and, therefore, compelled to hire themselves out for work to the capitalists; and two, the accumulation of the wealth in money necessary to create large capitalist enterprises.

We have seen that capitalism drew its sustenance from small commodity production based on private property, with its competition bringing enrichment to the few and ruin to the majority of small producers. The slowness of this process, however, did not correspond to the requirement of the new world market created by the great discoveries of the end of the fifteenth century. The rise of the capitalist mode of production was hastened by the application of the crudest methods of violence by the large landowners, bourgeoisie and the State power which was in the hands of the exploiting classes. Force,

in Marx's expression, played the part of the midwife, hastening the birth of the new capitalist mode of production.

Some bourgeois historians idyllically depict the history of the rise of the capitalist and working classes. In immemorial times, they assert, there existed a group of assiduous and careful men who accumulated wealth by their labour. On the other hand, there existed a number of lazy-bones and idlers who squandered all their substance and were converted into propertyless proletarians.

These fables of the defenders of capitalism have no connection with reality. In fact, the formation of the mass of propertyless people, the proletariat, and the accumulation of wealth in the hands of the few took place by means of the forcible deprivation of the small producers of their means of production. The process of the separation of the producers from the means of production (the land, implements of production, and so on) was accompanied by an endless succession of acts of plunder and cruelty. This process is called *primitive capital accumulation* since it preceded the creation of large-scale capitalist production.

Capitalist production achieved considerable development first of all in England. From the end of the fifteenth century there took place in that country an agonising process of the forcible expulsion of the peasants from the land. The increased demand for wool from the large cloth manufactories, which arose first in Flanders and then in England itself, gave the direct impetus to this. The landlords began to raise large flocks of sheep. Pastures were needed for sheep-raising. The feudal lords drove off the peasants in masses from the places they occupied, seized the lands which had been in their permanent possession, and converted the arable into pastures.

The expulsion of the peasants from the land was carried out by various means, and primarily by means of the open seizure of common lands. The landlords enclosed these lands, destroyed the peasant homes and forcibly expelled the peasants. If the peasants attempted to get back the land illegally seized from them, the armed force of the State came to the help of the landlord. The State power began to issue laws in the eighteenth century on "enclosure", justifying the plundering of the peasants.

The ruined and plundered peasants formed innumerable crowds of indigent beggars who filled the towns, villages and roads of England. Having no means of existence they became

beggars. The State authority issued bloody laws against those who had been expropriated. These laws were distinguished by their exceptional ferocity. Thus, in the reign of the English king Henry VIII (sixteenth century), 72,000 people were executed for "vagabondage".

In Tsarist *Russia*, which entered the road of capitalist development later than other European countries, the separation of the producer from the means of production was effected in the same ways as in other countries. In 1861 the Tsarist government, under the influence of peasant risings, was compelled to abolish serfdom.

This reform was a gigantic plundering of the peasants. The landlords seized two-thirds of the land, leaving only one-third for the use of the peasants. The most convenient lands, and also in a number of cases the pastures, ponds, roads to the fields and so on which were used by the peasant, were cut off by the landlords. In the hands of the landlords the lands "cut off" by the landlords became a means of imposing a new bondage on the peasants, compelled to rent these lands from the landlords on the most burdensome conditions. The law while announcing the personal freedom of the peasants, temporarily preserved week-work and quitrent. For the reduced plot of land which he received, the peasant was obliged to carry out these duties for the landlord until the land had been paid for. The scale of purchase payments was reckoned at inflated prices for land and amounted to about two milliard roubles.

Characterising the features of the peasant reform of 1861 Lenin wrote:

> "They all represent the first acts of mass violence against the peasantry in the interests of nascent capitalism in agriculture. It is the 'clearing of estates' for capitalism by the landlords." (Lenin, "The Agrarian Programme of Social Democracy in the First Russian Revolution", *Selected Works*, English edition, vol. III, p. 182.)

A double result was achieved by the eviction of the peasants from the land. On the one hand, the land became the private property of a comparatively small group of landowners. Feudal estate property in land was converted into bourgeois property. On the other hand, an abundant influx into industry of free workers ready to hire themselves to the capitalists, was assured.

Apart from the presence of a cheap labour force, the accumulation in a few hands of great wealth, in the form of sums of

money which could be converted into any means of production and used to hire workers, was essential for the appearance of capitalist production.

In the Middle Ages large amounts of money were accumulated by traders and usurers. This wealth was later used as the basis for organising many capitalist enterprises.

The conquest of America, which was accompanied by the mass plundering and extermination of the native population, brought the conquerors incalculable riches which began to grow still faster as a result of the exploitation of very rich mines of gold and silver. Hands were needed for the mines. The native population, the Indians, perished in masses, not surviving the harsh labour conditions. European merchants in Africa organised the hunting of negroes which was carried out entirely as though it was wild animals they hunted. The trade in negroes exported from Africa and converted into slaves was exceptionally profitable. The slave traders' profits achieved fabulous heights. Negro slave labour began to be widely applied in the cotton plantations of America.

Colonial trade was also one of the most important sources for the creation of large fortunes. Dutch, English and French merchants organised East India companies for trade with India. These companies were supported by their governments. They were granted the monopoly of trade in colonial commodities and the right of unlimited exploitation of the colonies with the use of any forcible measures they pleased. The profits of the East India companies were reckoned in hundreds per cent per year. In Russia rapacious trading with the population of Siberia gave the merchants huge profits, as did the plunderous system of liquor monopolies, which consisted in the State's granting to private entrepreneurs the right to produce and sell alcoholic liquors for a definite payment.

Huge wealth in money was concentrated in the hands of commercial and usurers' capital as a result.

Thus, at the price of the plundering and ruin of the mass of small producers, the wealth essential for the creation of large capitalist enterprises was accumulated.

Describing this process, Marx wrote: ". . . capital comes [into the world] dripping from head to foot, from every pore, with blood and dirt." (Marx, *Capital*, Kerr edition, vol. I, p. 834.)

Peasant Serf Risings. Bourgeois Revolutions. Fall of the Feudal System

The struggle of the peasantry against the feudal landowners took place throughout the whole feudal epoch, but it became particularly sharp towards the end of this epoch.

In the fourteenth century *France* was in the grip of a peasant war which has gone down to history as the "Jacquerie". The rising bourgeoisie of the towns at first supported this movement, but left it at the decisive moment.

At the end of the fourteenth century in *England* a peasant revolt flared up which covered the greater part of the country. Armed peasants headed by Wat Tyler went through the country, sacking landlords' estates and the monasteries, and entered London. The feudal lords turned to violence and deceit in order to suppress the rising. Tyler was treacherously killed. Believing the promises of the king and the feudal lords the rebels dispersed to their homes. After this, punitive expeditions went about the countryside dealing out savage punishment to the peasants.

At the beginning of the sixteenth century *Germany* was convulsed by a peasant war supported by the town poor. Thomas Münzer was the leader of the rebels. The peasants demanded the abolition of the licence and violence of the gentry.

In *Russia* the peasant wars headed by Stepan Razin in the seventeenth century and Emelyan Pugachov in the eighteenth century were on a particularly large scale. The rebellious peasants sought the abolition of serfdom, the transfer to themselves of the landowners' and government lands and the ending of landlord rule. The intensification of the crisis of the feudal serf-owning system of economy in the 1850's was expressed in a broad wave of peasant risings on the eve of the 1861 reform.

In *China* peasant wars and risings on a huge scale took place throughout the centuries. The rising of the T'ai P'ing in the period of the Tsing dynasty (middle of the nineteenth century) embraced the millions of the peasantry. The rebels occupied the ancient capital of China, Nanking. The T'ai P'ing agrarian law proclaimed equality in the use of land and other property. In State organisation the T'ai P'ing linked monarchy and peasant democracy in their own way, which is also characteristic of peasant movements in other countries.

The revolutionary significance of peasant risings was that they shook the foundations of feudalism and in the end led to the abolition of serfdom.

The transition from feudalism to capitalism in the countries of Western Europe took place through *bourgeois revolutions*. The struggle of the peasants against the landowners was used by the rising bourgeoisie in order to hasten the downfall of the feudal system, to replace serf exploitation by capitalist exploitation and take power into their own hands. The peasants formed the basic mass of those fighting against feudalism in the bourgeois revolutions. So it was in the first bourgeois revolution in the Netherlands in the sixteenth century. So it was in the English revolution of the seventeenth century. So it was in the bourgeois revolution in France at the end of the eighteenth century.

The bourgeoisie used the fruits of the revolutionary struggle of the peasantry, climbing to power on its shoulders. The peasants were strong in their hatred of the oppressors. The peasant risings, however, bore a spontaneous character. The peasantry, as a class of small private owners, was split up and could not create a clear programme or a strong and well-knit organisation for the struggle. Peasant risings can lead to success only if they unite with the workers' movement and if the workers lead the peasant risings. At the period of the bourgeois revolutions of the seventeenth and eighteenth centuries, however, the working class was still weak, few in numbers and unorganised.

In the womb of feudal society more or less complete forms of the capitalist order ripened. The new exploiting class, the capitalist class, grew up and there appeared at the same time masses of people deprived of the means of production, the proletarians.

In the period of bourgeois revolutions the bourgeoisie used against feudalism the economic law of the obligatory correspondence between relations of production and the character of the forces of production; they overthrew feudal production relations, created new, bourgeois production relations and brought production relations into keeping with the character of the forces of production which had ripened in the womb of feudalism.

The bourgeois revolutions put an end to the feudal system and established the dominance of capitalism.

Economic Views of the Feudal Period

The social system dominant at that time was reflected in the economic views of the feudal period. Mental life in feudal society was under the control of the clergy and therefore found expression predominantly in a *religious and scholastic* form. Considerations on the economic life of that time formed special sections in theological tracts.

Economic opinions in China were for many centuries under the influence of the teaching of *Confucius*. Confucianism as a religious ideology had arisen already in the fifth century B.C. The social and economic views of Confucianism require strict maintenance of the hierarchy of feudal estates, both in State structure and in family life. In Confucius's words, "the unenlightened people should obey the aristocrats and wise men. Disobedience by ordinary people to their superiors is the beginning of disorder". At the same time, Confucius called upon the "nobles" to be "humane" and not to treat the poor too harshly. Confucius advocated the necessity of uniting China, which was then divided, under the rule of a monarch. Confucius and his followers idealised backward forms of economy and extolled the "golden age" of the patriarchal past. The peasantry, crushed by the feudal aristocracy and the merchants, put into the Confucian preachings their own aspirations and hopes for betterment of their lot, though Confucianism did not express the class interests of the peasantry. As it developed, Confucianism became transformed into the official ideology of the feudal nobility. It was used by the ruling classes for the purpose of training the people in a spirit of slavish submission to the feudalists and of perpetuating the feudal system.

One of the ideologists of feudalism in medieval Europe, Thomas Aquinas (thirteenth century), attempted to justify the need for feudal society by divine law. Proclaiming feudal property as necessary and reasonable, and declaring the peasant serfs to be slaves, Thomas Aquinas, in opposition to the ancient slave-owners, asserted that "in his soul the slave is free" and therefore a master has no right to kill a slave. Labour was no longer considered unworthy of a free man. Thomas Aquinas regarded physical labour as base, and mental labour as noble. In this division he saw the justification for society's division into estates. The same approach from the point of view of the feudal estates appeared in his views on wealth. Each person should own wealth in keeping with the position which he occupied on the hierarchical feudal ladder. From this point of view the teaching of the medieval theologians on the so-called "just" price is characteristic. The "just" price should reflect the quantity of labour expended in producing a commodity, and the estate of the producer.

Medieval defenders of the "just" price did not protest at all against merchant profits. They only strove to confine profits within bounds so that they would not threaten the economic existence of the other

estates. They condemned usury as a low and immoral occupation. With the development of commodity production and exchange, however, the clergy themselves began to take part in money-lending; along with this, the attitude of the Church to usury became more and more tolerant.

The class struggle of the oppressed and exploited masses against the ruling classes of feudal society developed in a religious form for several centuries. The demands of exploited peasants and journeymen were frequently based on quotations from the Bible. All sorts of sects were very widespread. The Catholic church, fiercely persecuting "heretics" through the Inquisition, burned them at the stake.

With the development of the class struggle, the religious form of the movement of the oppressed masses retreated into the background, and the revolutionary character of this movement stood out ever more clearly. The peasants demanded the suppression of serf slavery, the abolition of feudal privileges, the establishment of equal rights, the abolition of estates, and so on.

In the course of the peasant wars in England, Bohemia and Germany the slogans of the rebels became more and more radical. The longing of the exploited masses of town and country for equality expressed itself in the demand for *community of property*. This was a yearning for equality in the sphere of consumption. Although the demand for community of property was unrealisable, it was of revolutionary significance at that time since it rallied the masses in struggle against feudal oppression.

Towards the end of the feudal period two outstanding early Utopian Socialists appeared—the Englishman *Thomas More*, who wrote *Utopia* (sixteenth century) and the Italian Tomaso Campanella whose book is called *City of the Sun* (seventeenth century). Seeing the growing inequality and contradictions of contemporary society, these thinkers expounded their views on the causes of social evils in an original form; they described what were, in their opinion, ideal social systems, from which these evils would be excluded.

In the books of these Utopians a social system is described which is free from private property and all its accompanying faults. Everyone in this society is engaged in both handicraft and agricultural labour. All inhabitants work six, or even four, hours a day, and the fruits of their labour are entirely sufficient to satisfy all their needs. Products are distributed according to need. The education of children is a concern of society.

The works of More and Campanella played a progressive part in the process of the development of social thought. They contained ideas considerably in advance of the development of society of that time. More and Campanella, however, did not know the laws of social development, and their ideas were unrealisable, "Utopian". It was impossible at that time to destroy social inequality; the level of productive forces demanded the advance from feudal to capitalist exploitation.

The rise of capitalism belongs to the sixteenth century. To the same century belong the first attempts to comprehend and explain a number of the phenomena of capitalism. Thus in the sixteenth to eighteenth centuries there arose and developed the trend of economic thought and policy known as *mercantilism*.

Mercantilism arose in England, and afterwards it appeared in France, Italy and other countries. The mercantilists discussed the question of the country's wealth, the forms of wealth and the ways of its growth.

This was a time when capital—in the form of merchant and usurers' capital—was predominant in the sphere of trade and credit. In the sphere of production, however, it had made only the first steps by founding manufactories. After the discovery and conquest of America a flood of gold and silver poured into Europe. Gold and silver were then ceaselessly re-distributed among the individual European States, both by means of wars and through foreign trade.

In their understanding of the nature of wealth the mercantilists started from the superficial phenomena of circulation. They concentrated attention not on production, but on trade and money circulation, particularly the movement of gold and silver.

In the view of the mercantilists, not social production and its products, but money, gold and silver, was the sole real wealth. The mercantilists demanded active intervention in economic life by the State, so that as much money as possible should flow into the country and as little as possible pass beyond its limits. The early mercantilists sought to achieve this by purely administrative measures, forbidding the export of money from the country. Later mercantilists considered it essential to expand foreign trade for these ends. Thus an English partisan of mercantilism, Thomas Mun (1571–1641), a great merchant and director of the East India Company wrote: "The ordinary means therefore to increase our wealth and treasure is by *Foreign Trade*, wherein we must ever observe this rule; to sell more to strangers yearly than we consume of theirs in value."

The mercantilists reflected the interests of the bourgeoisie which was growing up in the womb of feudalism and striving to accumulate wealth in gold and silver by developing foreign trade, colonial plunder and trade wars and the enslavement of backward peoples. In connection with the development of capitalism, they began to demand that the State authorities should protect the development of industrial enterprises, the manufactories. *Export bounties*, which were paid to merchants selling commodities on the foreign market, were established. *Import duties* soon became still more significant. With the development of the manufactories and later of factories, the imposition of duties on imported commodities became the most widespread defence measure of home industry against foreign competition.

Such a defensive policy is called *protectionism*. In many countries it remained for a long time after the conceptions of mercantilism had been overcome.

In *England* protective duties were of great significance in the sixteenth and seventeenth centuries, when competition from the more developed manufactories of the Netherlands threatened her. From the eighteenth century England was steadily gaining industrial leadership. Other less developed countries could not compete with her. Consequently, ideas of free trade began to gain ground in England.

A different situation was created in countries which entered on the capitalist road later than England. Thus, in *France* in the seventeenth century Colbert, the minister of Louis XIV, who in fact ruled the country, created a widely ramified system of State patronage of manufactories. His system included high import duties, the prohibition of exports of raw materials, the introduction of a number of new branches of industry, the setting up of companies for foreign trade, and so on.

Mercantilism played a progressive part for its time. The protectionist policy inspired by the ideas of mercantilism greatly helped the spread of manufactories. The lack of development of capitalist production at that time, however, was reflected in the mercantilists' views of wealth. The further development of capitalism made the unsoundness of the conceptions of the mercantile system more and more evident.

In *Russia* in the seventeenth and eighteenth centuries the feudal serf-owning system of economy was dominant. The economy was basically a natural one. At the same time, trade and handicraft developed considerably, a national market was formed and manufactories began to arise. These economic changes in the country helped to strengthen absolutism in Russia.

The representatives of Russian economic thought, reflecting the historical and economic peculiarities of the country, developed certain mercantilist ideas. However, as distinct from many West European mercantilists, they ascribed great significance not only to trade, but also to the development of industry and agriculture.

The economic views of that time were reflected in the works and measures of the seventeenth century Russian statesman A. L. Ordyn-Nashchokin, in the economic policy of Peter I and in the works of the most important Russian economist of the beginning of the eighteenth century, I. T. Pososhkov.

In his *Book on Poverty and Wealth* (1724) *I. T. Pososhkov* expounded a broad programme of Russian economic development and offered a developed justification for this programme. Pososhkov demonstrated the necessity of adopting a number of economic measures in Russia with the aim of protecting the development of home industry trade and agriculture and improving the country's financial system.

In the last third of the eighteenth century a tendency to the breakdown of feudal serf-owning relations was noticeable in Russia; this became much more acute in the first quarter of the nineteenth century, and later grew into a direct crisis of serfdom.

The initiator of the revolutionary-democratic trend in Russian social thought, *A. N. Radishchev* (1749–1802), was an outstanding economist of his time. Radishchev, resolutely attacking serfdom and defending the oppressed peasantry, made an annihilating criticism of the serf-owning system, exposed the exploiting nature of the wealth of the landlords and serf-owners, the owners of manufactories and traders and justified the right to ownership of land of those who worked it with their labour. Radishchev was firmly convinced that the autocracy and serfdom could be liquidated only by revolutionary means. He worked out a system of economic measures which were progressive for his time, and the realisation of which would have secured Russia's advance to a bourgeois democratic system.

The *Decembrists*, in the first half of the nineteenth century, were revolutionaries of that historical period in Russia when the need to replace feudalism by capitalism had ripened. They directed the edge of their criticism against serfdom. Standing forth as fiery partisans of the development of Russia's productive forces, they considered the abolition of serfdom and the emancipation of the peasants as the most important conditions of this development. The Decembrists not only put forward the slogan of struggle against serfdom and autocracy, but also organised an armed rising against the absolute monarchy. *P. I. Pestel* (1793–1826) worked out an original scheme for the solution of the agrarian problem in Russia. He drew up a kind of draft constitution, which he called "The Russian Law", envisaging the urgent and complete emancipation of the peasants from serfdom and also economic measures for the defence of the peasants' interests for the future. For this purpose Pestel considered it essential to create a special public land fund from which each peasant could receive for his own use, without payment, land essential for his existence. This fund should be formed out of part of the land of the landlords and the Government, moreover, part of the land should be alienated from the largest landlords without compensation. The Decembrists, as revolutionaries coming from the ranks of the gentry, were far from the people, but their ideas of struggle against serfdom helped the growth of the revolutionary movement in Russia.

The ideology of the bourgeoisie in their rise to supremacy was formed in conditions of the breakdown of feudalism and the birth of the capitalist order of society. This ideology was directed against the feudal system and against religion as the ideological weapon of the feudal lords. Therefore, the outlook of the bourgeoisie struggling for power had a progressive character in a number of countries. Its most notable representatives—economists and philosophers—subjected to decisive criticism all the fundamental principles of feudal society: economic, political, religious, philosophical and moral. They played a great part in the ideological preparation of the bourgeois revolution and exerted a progressive influence on the development of science and art.

BRIEF CONCLUSIONS

(1) Feudalism arose on the basis of the disintegration of slave-owning society and the break-up of the village community of the tribes which conquered the slave-owning States. In those countries where there had been no slave-owning system, feudalism arose on the basis of the break-up of the primitive community system. The clan aristocracy and military leaders of the tribes took into their hands a great quantity of lands and distributed them among their followers. The gradual enserfing of the peasants took place.

(2) The feudal lord's ownership of land and incomplete ownership of the worker in production—the peasant serf—was the basis of the relations of production in feudal society. As well as feudal property there existed the individual property of the peasant and craftsman, which was based on personal labour. The labour of the peasant serfs was the source of the existence of feudal society. Serf exploitation was expressed in the fact that the peasants were compelled to perform week-work for the feudal lord, or to pay him quitrent in kind and in money. The burden that serfdom laid on the peasant was frequently little different from that of slavery. However, the serf system opened certain possibilities for the development of the productive forces since the peasant could work a certain part of the time on his own holding and had a certain interest in his labour.

(3) The basic economic law of feudalism consists in the production of surplus product to satisfy the demands of the feudal lords, by means of the exploitation of dependent peasants, on the basis of the ownership of the land by the feudal lords and their incomplete ownership of the workers in production—the serfs.

(4) Feudal society, particularly in the period of the early Middle Ages, was split into small princedoms and states. The nobility and clergy were the ruling estates of feudal society. The peasant estate had no political rights. A class struggle between peasants and feudal lords took place throughout the whole history of feudal society. The feudal State, reflecting the interests of nobility and clergy, was an active force helping them to consolidate their right of feudal ownership of the land

and to intensify their exploitation of the dispossessed and oppressed peasants.

(5) In the feudal epoch agriculture played a predominant part, and the economy had a basically natural character. With the development of the social division of labour and exchange, the old towns which had survived the fall of the slave-owning system revived, and new towns arose. The towns were centres of handicraft and trade. The crafts were organised in guilds which strove to prevent competition. Traders united in merchant guilds.

(6) The development of commodity production, breaking down the natural economy, led to differentiation among the peasants and the craftsmen. Merchant capital hastened the decline of the crafts and promoted the birth of capitalist enterprise—the manufactories. Feudal limitations and territorial divisions acted as a brake on the growth of commodity production. In the process of further development the national market was formed. The centralised feudal State arose in the form of absolute monarchy.

(7) Primitive accumulation of capital prepared the conditions for the rise of capitalism. Huge numbers of small producers—peasants and craftsmen—were deprived of the means of production. Great monetary wealth concentrated in the hands of large landowners, merchants and usurers was created by means of the forcible expropriation of the peasantry, colonial trade, taxes and the slave trade. Thus the formation of the basic classes of capitalist society, of wage-workers and capitalists, was accelerated. More or less complete forms of the capitalist order of society grew and ripened in the womb of feudal society.

(8) The production relations of feudalism, the low productivity of the unfree labour of the peasant serfs, and guild restrictions, hindered the further development of productive forces. Peasant serf risings shook the feudal system and led to the abolition of serfdom. The bourgeoisie took the lead in the struggle for the overthrow of feudalism. It made use of the revolutionary struggle of the peasants against the feudal lords in order to take power into its own hands. The bourgeois revolutions put an end to the feudal system and established the rule of capitalism, giving scope for the development of the forces of production.

Part Two

THE CAPITALIST MODE OF PRODUCTION

A. PRE-MONOPOLY CAPITALISM

CHAPTER IV

COMMODITY PRODUCTION. COMMODITIES AND MONEY

Commodity Production—the Point of Departure for the Rise of Capitalism and a General Feature of Capitalism

The capitalist mode of production, which arose as successor to the feudal mode of production, is based upon exploitation of the class of wage-workers by the class of capitalists. To understand the essence of the capitalist mode of production one must bear in mind, first and foremost, that the capitalist system has commodity production as its foundation: under capitalism everything takes the form of a commodity and the principle of buying and selling prevails everywhere.

Commodity production is older than capitalist production. It existed in slave-owning society and under feudalism. In the period when feudalism was breaking down, simple commodity production served as the basis for the rise of capitalist production.

Simple commodity production presupposes, first, the social division of labour, under which individual producers specialise in making particular products, and, second, the existence of private property in the means of production and in the products of labour.

The simple commodity production of craftsmen and peasants is distinguished from capitalist commodity production by the fact that it is based upon the personal labour of the commodity producer. Yet fundamentally it is *similar in kind* to capitalist production, in so far as its foundation is private property in the means of production. Private ownership inevitably gives rise to competition between the commodity producers, which leads to the enrichment of a minority and the ruin of the majority. Thus, petty commodity production serves as the point of departure for the rise and development of capitalist relations.

Under capitalism commodity production becomes dominant and universal. The exchange of commodities, Lenin wrote,

appears as "the simplest, most ordinary, fundamental, most common and everyday *relation* of bourgeois (commodity) society, a relation that is encountered thousands of millions of times." (Lenin, "On Dialectics", *Marx-Engels-Marxism*, 1951, English edition, p. 334.)

The Commodity and its Characteristics. Dual Nature of the Labour embodied in a Commodity

A commodity is a thing which, first, satisfies some human demand and, second, is produced not for personal consumption but for exchange.

The utility of a thing, the characteristics thanks to which it is able to satisfy some human demand, makes the thing a *use-value*. A use-value can either directly satisfy an individual human demand or else serve as a means of production of material wealth. For instance, bread satisfies a demand as food and cloth as clothing, while the use-value of a loom consists in the fact that cloth is made with its help. In the course of historical development, man continually discovers fresh useful characteristics in things and fresh ways of using them.

Use-value is possessed by many things which have not in any way been created by human labour, such as, for example, spring-water or the fruits of wild trees. But not everything which has use-value is a commodity. For a thing to become a commodity it must be a product of labour produced for sale.

Use-value forms the material substance of wealth, whatever its social form may be. In a commodity economy, use-value is the depository of the exchange-value of a commodity. *Exchange-value* appears first of all as the *quantitative relationship* in which use-values of one kind are exchanged for use-values of another kind. For example, one axe is exchanged for 20 kilogrammes of grain. In this quantitative relationship between the commodities exchanged is expressed also their exchange-value. Commodities are treated as equivalent to each other in definite quantities, consequently they must have a common basis. This basis cannot be any of the natural properties of commodities —their weight, size, shape, etc. The natural properties of commodities determine their utility and their use-value, a necessary condition for exchange is difference between the use-values of the commodities to be exchanged. No one will

exchange commodities which are identical, such as wheat for wheat, or sugar for sugar. The use-values of different commodities, being different qualitatively, are incommensurable quantitatively.

Commodities of different kinds have only one characteristic in common which makes it possible to compare them for purposes of exchange, and it is that they are all *products of labour*. Underlying the equivalence of two commodities which are exchanged against each other is the social labour expended in producing them. When a commodity producer brings an axe to market in order to exchange it he finds that for his axe he can get 20 kilogrammes of grain. This means that the axe *is worth* the same amount of social labour as 20 kilogrammes of grain are worth. *Value* is the social labour of commodity producers embodied in a commodity.

That the value of commodities embodies the social labour expended in producing them is borne out by some generally known facts. Material wealth which is useful in itself, but requires no expenditure of labour for its production, has no value—e.g., the air. Material wealth which requires a large expenditure of labour has a high value—e.g., gold, diamonds. Many commodities which at one time were costly have become cheaper as the development of technique has reduced the amount of labour needed to produce them. Changes in the amount of labour expended in producing commodities are usually reflected in the quantitative relationship between these commodities when exchanged, i.e., in their exchange-value. It follows from all this that the exchange-value of a commodity is the form in which its value manifests itself.

Hidden behind the exchange of commodities is the social division of labour between the persons who are the owners of these commodities. When commodity producers compare different commodities, one with another, in so doing they are comparing their different kinds of labour. Thus, value expresses the production-relations between commodity producers. These relations manifest themselves in the exchange of commodities.

A commodity has a *two-fold* character: in one aspect it is a use-value and in another it is a value. The two-fold character of the commodity is caused by the *two-fold nature of the labour* embodied in the commodity. The kinds of labour are just as various as the use-values which are produced. The labour of a

joiner is qualitatively different from that of a tailor, a shoemaker, etc. The different kinds of labour are distinguished one from another by their aims, methods, tools and, finally, their results. The joiner does his work with an axe, a saw and a plane and makes wooden articles: tables, chairs, cupboards; the tailor makes clothes, using a sewing machine, scissors and a needle. Thus, in each use-value a definite kind of labour is embodied: in a table—the joiner's labour, in a suit—the tailor's labour, in a pair of shoes—the shoemaker's labour, etc. Labour expended in a definite form is *concrete labour*. Concrete labour creates the use-value of a commodity.

In the course of exchange, commodities of the most various kinds, created by different kinds of concrete labour, are compared together and measured on a common footing. Consequently, behind the different concrete forms of labour there is hidden something common, something inherent in every form of labour. Both the joiner's labour and the tailor's, despite the qualitative difference between these forms of labour, constitute a productive expenditure of human brains, nerves, muscles, etc., and in this sense are homogeneous human labour, labour *in general*. The labour of commodity producers, considered as expenditure of human labour-power generally, without regard to its concrete form, is *abstract labour*. Abstract labour forms the value of a commodity.

Abstract and concrete labour are two aspects of the labour embodied in a commodity.

> "On the one hand, all labour is, speaking physiologically, an expenditure of human labour-power and in its character of identical abstract human labour, it creates and forms the value of commodities. On the other hand, all labour is the expenditure of human labour-power in a special form and with a definite aim, and in this, its character of concrete useful labour, it produces use-values." (Marx, *Capital*, Kerr edition, vol. I, p. 54.)

In a society in which private property in the means of production prevails, the two-fold character of the labour embodied in a commodity reflects the *contradiction between the private and social labour* of the commodity producers. Private ownership of the means of production *separates* people, makes the labour of the individual commodity producer his own

private affair. Each commodity producer conducts his enterprise separately from the rest. The labour of the separate workers is not concerted or co-ordinated on the scale of society as a whole. But, from another angle, the social division of labour means that *all-round connections* exist between the producers, who are working for each other. The more labour is divided in society and the more varied are the products manufactured by the separate producers, the more extensive is the mutual dependence of the latter. Consequently, the labour of each separate commodity producer is essentially *social* labour and forms a particle of the labour of society as a whole. Commodities, which are products of various kinds of particular, concrete labour, are at the same time also products of human labour in general, abstract labour.

It follows that the contradiction of commodity production consists in the labour of commodity producers, which is directly the private affair of each one of them, having at the same time a social character. Owing to the isolation of the commodity products one from another, the social character of their labour in the process of production remains hidden. It finds expression only in the process of exchange, when the commodity comes on to the market and is exchanged against another commodity. Only in the process of exchange is it revealed whether the labour of a particular commodity producer is needed by society and whether it will receive social recognition.

Abstract labour, which forms the value of a commodity, is an historical category, a specific form of social labour belonging to commodity economy only. In natural economy men produce their products not for exchange but for personal consumption, so that the social character of their labour appears directly in concrete form. For example, when a feudal lord extracted surplus product from serf-peasants in the form of labour-rent or rent in kind, he appropriated their labour directly in the form of labour services or definite products. In these circumstances social labour did not assume the form of abstract labour. In commodity production, products are produced not for personal consumption but for sale. The social character of labour is here expressed by means of the comparison of one commodity with another, and this comparison takes place through the reducing of concrete forms of labour to the abstract labour which forms the value of a commodity. This process

takes place spontaneously, without any sort of common plan, behind the backs of the commodity producers.

Socially-necessary Labour-Time. Simple and Complex Labour

The *magnitude* of the value of a commodity is determined by labour-time. The more labour-time is needed to produce a given commodity, the higher is its value. Of course, the individual commodity producers work in varying conditions and expend varying amounts of labour-time in the production of one and the same kind of commodity. Does this mean that the more idle the worker, or the less favourable the conditions in which he is working, the higher the value of the commodity produced by him? No, it does not mean that. The magnitude of the value of a commodity is determined not by the individual labour-time expended by a particular commodity producer in producing a commodity, but by the socially-necessary labour-time.

Socially-necessary labour-time is the time needed for the making of any commodity under average social conditions of production, i.e., with the average level of technique and average skill and intensity of labour. It corresponds to the conditions of production under which the greatest bulk of goods of a particular kind are produced. Socially-necessary labour-time changes as a result of the growth of the productivity of labour.

The productivity of labour is expressed in the amount of products created in a given unit of labour-time. The productivity of labour grows as a result of the improvement or fuller utilisation of the instruments of production, the development of science, the increase in the worker's skill, the rationalisation of work, and other improvements in the production process. To a greater or less extent it is also dependent on natural conditions. The higher the productivity of labour, the less the time needed for the production of a unit of the given commodity and the lower the value of this commodity.

The intensity of labour must be distinguished from the productivity of labour. The *intensity of labour* is determined by the amount of labour expended in a unit of time. A growth in the intensity of labour means an increase in the expenditure of labour in one and the same interval of time. More intensive labour embodies itself in a greater quantity of products and

creates a greater value in a given unit of time, as compared with less intensive labour.

Workers of varying skill take part in the production of commodities. The labour of a worker who has had no special training is *simple* labour. Labour which requires special training is *complex* or *skilled* labour.

Complex labour creates value of greater magnitude than is created by simple labour in the same unit of time. Into the value of a commodity created by complex labour there enters also part of the labour expended on the worker's training, on raising his degree of skill. Complex labour is equivalent to *multiplied* simple labour; one hour of complex labour is equal to several hours of simple labour. The reduction of various forms of complex labour to simple labour takes place spontaneously under commodity production based on private property. The magnitude of the value of a commodity is determined by the socially-necessary amount of simple labour.

Development of the Forms of Value. Nature of Money

The value of a commodity is created by labour in the process of production, but it can manifest itself only through the comparison of one commodity with another in the process of exchange, i.e., through exchange-value.

The simplest form of value is the expression of the value of one commodity in terms of another commodity: e.g., one axe =20 kilogrammes of grain. Let us examine this form.

In this case, the value of the axe is expressed in terms of grain. The grain serves as a means of expressing the value of the axe. It is possible to express the value of the axe in the use-value of grain only because labour is expended both in the production of the grain and in that of the axe. Behind the equality of these commodities is concealed the equal expenditure of labour in producing them. A commodity which expresses its value in another commodity (in our example, the axe), has a *relative* form of value. A commodity the use-value of which serves as the means of expressing the value of another commodity (in our example, the grain), has an *equivalent* form. The grain is the equivalent of (is worth) the other commodity, viz., the axe.

The use-value of one commodity, grain, thus becomes the

form in which the value of another commodity, the axe, is expressed.

In the beginning, exchange, which originated already in primitive society, was of a casual nature and took place in the form of direct exchange of one product for another. To this stage in the development of exchange corresponds the *elementary* or *accidental* form of value:

1 axe=20 kilogrammes of grain.

Under the elementary form of value, the value of an axe can be expressed only in the use-value of a single commodity; in the given example, grain.

With the rise of the first major social division of labour—the separation of pastoral tribes from the general mass of tribes—exchange becomes more regular. Certain tribes, e.g., the cattle-raising ones, begin to produce a surplus of cattle products, which they exchange for products of agriculture or handicraft which they lack. To this level of the development of exchange corresponds the *total* or *expanded* form of value. There now take part in exchange not two but a whole series of commodities:

1 sheep =40 kilogrammes of grain,
or
=20 metres of cloth,
or
2 axes,
or
= 3 grammes of gold, etc.

In this case the commodity's value is expressed in the use-value not of a single commodity but of a number of commodities, all playing the part of equivalent. In addition, the quantitative correlations in which the commodities are exchanged, acquire a more constant character. At this stage, however, the direct exchange of one commodity for another is retained.

With the further development of the social division of labour and of commodity production, the form of direct exchange of one commodity for another becomes inadequate. Difficulties arise in the process of exchange, engendered by the growth of the contradictions of commodity production, contradictions

between individual and social labour, between the use-value and the value of a commodity. With increasing frequency the situation occurs when, for example, the owner of some shoes wants an axe, but the use-value of the shoes prevents exchange being effected, because the owner of an axe wants not shoes but grain: it is not possible for these two commodity owners to effect a transaction. When this happens the owner of shoes exchanges his shoes for that commodity which is exchanged more often than any other and which everybody accepts most readily—a sheep, say—and then exchanges this sheep for the axe which he wants. The owner of the axe, having received in exchange for it a sheep, exchanges this for grain. This is how the contradictions of direct exchange are solved. The direct exchange of one commodity for another gradually disappears. From among the commodities one becomes singled out—e.g., livestock—for which all commodities begin to be exchanged. To this stage in the development of exchange corresponds the *general* form of value:

40 kilogrammes of grain =
or
20 metres of cloth =
or
2 axes = } 1 sheep.
or
3 grammes of gold, etc. =

It is a characteristic of the general form of value that all commodities begin to be exchanged for a commodity which plays the role of *universal equivalent*. At this stage, however, the role of universal equivalent had still not become attached to any single commodity. In different places the role of universal equivalent was played by different commodities. In some places it was livestock, in others furs, in yet others salt, and so on.

The further growth of the productive forces, the transition to metal tools, the rise of the second major division of labour —the separation of handicraft from agriculture—led to the further development of commodity production and the widening of the market. The abundance of different commodities playing the role of universal equivalent came into contradiction

with the needs of the growing market, which required transition to a single equivalent.

When the role of universal equivalent had become attached to one commodity, the *money* form of value appeared. The role of money has been taken by various metals, but eventually it became consolidated in the precious metals, gold and silver. In silver and gold are particularly expressed all the advantages of metals which make them more suitable than anything else to fulfil the function of money: homegeneity, divisibility, durability and insignificant size and weight combined with great value. Therefore the role of money became firmly connected with the precious metals, and in the long run with gold.

The money form of value can be depicted like this:

40 kilograms of grain =
or
20 metres of cloth =
or
1 sheep = } 3 grammes of gold.
or
2 axes, etc. =

Under the money form of value, the value of every commodity is expressed in the use-value of a single commodity, which has become the universal equivalent.

Money thus arose as a result of a long process of development of exchange and of forms of value. With the rise of money a polarisation took place in the world of commodities—at one pole remained the ordinary commodities, while to the other pole went the commodity which played the role of money. Now all commodities begin to express their value in the money commodity. Consequently, money appears, in contradiction to all other commodities, as the general embodiment of value, the universal equivalent. Money possesses the property of being directly exchangeable for any commodity and so serves as the means of satisfying all the requirements of the commodity owners, whereas all other commodities can satisfy only one or other of their requirements—e.g., bread, clothing, etc.

Consequently, *money* is the commodity which is the universal equivalent of all commodities; it embodies social labour and expresses the production relations between the commodity producers.

Functions of Money

As commodity production extends so the functions fulfilled by money expand. In developed commodity production money serves as:

(1) the measure of value, (2) the medium of circulation, (3) the means of accumulation, (4) the means of payment and (5) world-wide currency.

The fundamental function of money consists in serving as the *measure of value* of commodities. With the aid of money the individual labour of a commodity producer finds social expression and the spontaneous calculation and measurement of the values of all commodities is effected. The value of a commodity cannot be directly expressed in labour-time, since under conditions in which the private commodity producers operate in isolation and separation one from another it is impossible to determine the amount of labour which not any particular commodity producer but society as a whole expends in the production of any particular commodity. For this reason the value of a commodity can be expressed only indirectly, by way of the equating of the commodity with money in the process of exchange.

To fulfil the function of measure of value, money must itself be a commodity and possess value. Just as the weights of bodies can be measured only by means of scales which themselves possess weights, so the value of a commodity can be measured only by means of a commodity which possesses value.

Measurement of the value of commodities by means of gold occurs even before a given commodity is exchanged for money. To express the value of commodities in money it is not necessary to have cash in one's hand. In fixing a definite price for a commodity, its owner mentally (or, as Marx puts it, ideally) expresses the commodity's value in gold. This is possible thanks to the fact that there exists in reality a definite correlation between the value of gold and the value of the given commodity; the basis for this correlation is provided by the socially-necessary labour which is expended in producing them.

A commodity's value expressed in money is called its price. *Price* is the monetary expression of the value of a commodity.

Commodities express their value in definite amounts of silver

or gold. These amounts of the money commodity must themselves in their turn be measured. This gives rise to the need for a unit of measurement of money. This unit consists of a definite amount, by weight, of the metal used for money.

In Britain, for example, the money unit is called the pound sterling; at one time it corresponded to a pound of silver. Later, money units ceased to coincide with units of weight. This occurred as a result of the importation of foreign coins, of the going over from silver to gold, and especially in consequence of the debasement of coins by governments, which gradually reduced their weight. For convenience of measurement monetary units are divided into aliquot parts: the rouble into 100 kopeks, the dollar into 100 cents, the franc into 100 centimes, etc.

The unit of money and its parts provide the *standard of price*. As a standard of price money plays a role completely different from when it serves as a measure of value. As a measure of value money measures the value of other commodities, but as a standard of price it measures the quantity of the money metal itself. The value of the money commodity varies with changes in the amount of labour socially necessary for its production. Changes in the value of gold are not reflected in its function as a standard of price. However much the value of gold may change, a dollar is still worth a hundred times as much as a cent.

The State can alter the gold content of the money unit, but it is not in a position to vary the value relationship between gold and other commodities. Should the State reduce the amount of gold contained in the money unit, i.e., lower its gold content, the market would react to this by a rise in prices, and the value of a commodity would be expressed, as before, in that quantity of gold which corresponded to the labour expended in producing the commodity in question. All that would happen would be that now a larger number of monetary units than before would be needed to express the same quantity of gold.

The prices of commodities may rise or fall under the influence of changes either in the value of commodities or in the value of gold. The value of gold, as of every commodity, depends on the productivity of labour. Thus, the discovery of America, with its rich gold-fields, led to a price-revolution in Europe between the sixteenth and eighteenth centuries. Gold was obtained in America with less labour than in Europe. The influx into Europe of the cheaper American gold brought about a general rise in prices.

Money fulfils the function of *circulation medium*. The exchanging of commodities effected with the aid of money is called commodity circulation. The circulation of commodities is inseparably bound up with the circulation of money itself: when a commodity passes from the hands of the seller into those of the buyer, money passes from the hands of the buyer into those of the seller. Money's function as circulation medium consists in its playing the part of intermediary in the circulation process of commodities. To carry out this function real money must be actually present.

At first, when commodities were exchanged, money figured directly in the form of bars of silver or gold. This led to certain difficulties: it was necessary to weigh the money metal, to break it up into small pieces and to carry out assays. Gradually bars of the money metal gave place to coins. A *coin* is a piece of metal of definite shape, weight and denomination, which serves as a medium of circulation. The minting of money was concentrated in the hands of the State.

During the process of circulation, coins become worn by use and lose part of their value. The practice of monetary circulation showed that worn coins could fulfil the function of circulation medium equally as well as coins of full value. The reason for this was that money when acting as a circulation medium plays only a fleeting role. As a rule, the seller of a commodity accepts money in exchange for it so as to buy another commodity with this money. Consequently, money acting as circulation medium need not necessarily possess its proper value.

Taking into account the practice of the circulation of worn coins, governments began consciously to debase the coinage, to reduce its weight, to lower the standard of assay of the money metal without changing the nominal value of coins, i.e., the number of monetary units marked upon them. Coins were transformed more and more into symbols of value, *tokens of money*. Their actual values are very much less than they nominally appear to be.

The splitting of the category "commodities" into commodities and money heralds a development of the contradictions of commodity production. When one commodity is directly exchanged for another, each transaction is of an isolated nature; selling is not separated from buying. It is another matter when exchange is carried on by mean of money, i.e., when commodity circulation arises. Now exchange

presupposes an all-round connection between commodity producers and a ceaseless interweaving of transactions among them. It opens up the possibility of a separation between buying and selling. A commodity producer can sell his commodity and retain for the time being the money which he receives for it. When many commodity producers sell without buying, a hold-up in the sale of commodities can come about. Thus, even simple commodity circulation contains in germ the possibility of crises. For this possibility to be transformed into inevitability, however, a number of conditions are needed which appear only with the advance to the capitalist mode of production.

Money fulfils the function of *means of accumulation* or means of forming *hoards*. Money is transformed into a hoard when it is withdrawn from circulation. As money can always be transformed into any commodity, it is the universal equivalent of wealth. It can be kept in any quantity. Commodity producers accumulate money, for example, in order to buy means of production or as savings. With the development of commodity production the power of money grows. All this gives rise to a passion for saving money, to the formation of hoards. The function of a hoard can be fulfilled only by money of full value: gold and silver coins, bars of gold and silver, and also articles made of gold and silver. When gold or silver coins are serving as money, they spontaneously adapt themselves in amount to the requirements of commodity circulation. When the production of commodities declines and commodity circulation shrinks, some of the gold coins disappear from circulation and are transferred into hoards. When production extends and commodity circulation grows, these coins reappear in circulation.

Money fulfils the function of *means of payment*. Money figures as a means of payment in cases when the buying and selling of a commodity is carried out on *credit*, i.e., with the payment deferred. When a commodity is bought on credit the transfer of the commodity from the seller's hands to the buyer's is effected without immediate payment by the purchaser. When the time comes for the purchased commodity to be paid for, money is paid by the buyer to the seller without any transfer of a commodity, this having taken place earlier. Money serves as a means of payment also in the payment of taxes, rent, etc.

The functioning of money as a means of payment reflects the further development of the contradictions of commodity production. The links between the separate commodity producers become more extensive and their dependence upon each other increases. The

buyer now becomes a debtor and the seller is transformed into a creditor. When many commodity owners are buying commodities on credit, the failure of one or a number of debtors to honour in due time their promises to pay can react upon a whole series of obligations to pay, and lead to the bankruptcy of a number of commodity owners who are linked together by credit relationships. Thus the possibility of crises, which is already inherent in the function of money as circulation medium, is intensified.

Examination of the function of money as circulation medium and as means of payment enables us to see clearly the law which determines the amount of money needed for the circulation of commodities.

Commodities are bought and sold in many places at the same time. The amount of money needed for circulation in a given period depends, first of all, on the *total of the prices* of the commodities in circulation, which in turn depends on the quantity of commodities and the price of each separate commodity. In addition, the velocity with which money moves around must be taken into account. The more rapidly money moves, the less of it is needed for circulation, and vice versa. If, for example, in the course of a given period—a year, say—commodities are sold at a total price of 1,000 million dollars, and each dollar moves five times, on the average, then for the circulation of the whole mass of commodities 200 million dollars are needed.

Thanks to the credit which commodity producers grant each other, the need for money is reduced by the total of the prices of commodities which are sold on credit and by the total of payments which mutually cancel out. Ready money is needed only for the settlement of those debt obligations the time to meet which has arrived.

Thus, the law of the circulation of money is this: *the amount of money needed for the circulation of commodities must equal the total of the prices of all commodities, divided by the average turnover of money units of the same denomination.* Furthermore, from the total of the prices of all commodities must be deducted the total of the prices of all commodities sold on credit and the sum of mutually-cancelling payments, and to it must be added the total of payments the time to settle which has come round.

This law applies universally to all social formations where commodity production and circulation take place.

Finally, money plays the role of world-wide currency in circulation between different countries. The role of universal money cannot be played by coins of less than full value or by paper money. On the world market money abandons the form of coins and appears in its original aspect—bars of precious metal. On the world market, in circulation between countries, gold is the universal purchasing medium for payment for commodities imported into one country from another, the universal means of payment for clearing international debts, for paying interest on foreign loans and other obligations, and the universal embodiment of social wealth when this is transferred from one country to another in monetary form, e.g., when money capital is exported from one country to another for the purpose of depositing it in foreign banks, for making loans, or for the payment of contributions by a conquered country to a victorious one, etc.

The development of the function of money expresses the growth of commodity production and its contradictions. In social formations based on the exploitation of man by man money bears a class character, serving as the means of appropriating the labour of others. It played this part in slave-owning society and in feudal society. As we shall see below, the role of money as an instrument of exploitation attained its highest development in capitalist society.

Gold and Paper Money

Under conditions of developed commodity production, paper money is often used instead of gold coins. The issue of paper money was engendered by the practice of the circulation of worn and devalued coins which had become transformed into symbols of gold, symbols of money.

Paper money means money tokens issued by the State, which people are obliged to accept instead of gold so far as its function as circulation medium is concerned. Paper money has no value of its own. For this reason it cannot fulfil the function of measure of the value of commodities. However much paper money may be issued, it represents only the value of that quantity of gold which is necessary for commodity circulation to be maintained. Paper money is not accepted in exchange for gold.

If paper money is issued in accordance with the amount of

gold needed for circulation, the purchasing power of paper money, i.e., the amount of commodities which it can buy, coincides with the purchasing power of gold money. But usually the State issues paper money to cover its expenses, especially in wartime, during crises or other emergencies, without regard to the needs of commodity circulation.

When the production and circulation of commodities are restricted or when an exceptional amount of paper money is issued, the latter is found to be in excess of the quantity of gold needed for circulation. Money has been issued, let us say, to an extent double what is needed. In such a case, each unit of paper money (dollar, mark, franc, etc.) will represent half the quantity of gold, i.e., the paper will depreciate by half.

The first attempts to issue paper money took place in China as far back as the twelfth century; paper money was issued in America in 1690[1] and in France in 1716; Britain began to issue paper money at the time of the Napoleonic Wars. In Russia paper money was first issued in Catherine II's reign.

An extraordinarily large issue of paper money, leading to its depreciation and used by the ruling classes for the purpose of transferring the burden of State expenditure on to the backs of the working masses and increasing their exploitation, is called *inflation*. Inflation, which gives rise to an increase in the cost of goods, bears heaviest upon the working people, because the wages and salaries of the workers lag behind the rise in prices. Capitalists and landlords benefit from inflation, owing above all to the fall in the real wages of industrial and agricultural workers. Inflation benefits those capitalists who export their commodities. As a result of the fall in real wages and the reduction thereby of the costs of production of commodities it becomes possible for them to compete successfully with foreign capitalists and landlords and increase the sale of their commodities.

The Law of Value—an Economic Law of Commodity Production

In commodity production based on private property, the production of commodities is carried out by separate private commodity producers. A competitive struggle goes on between these commodity producers. Each one tries to push the others

[1] In Massachusetts, then a British colony. *Editor, English edition.*

aside and to maintain and extend his own position in the market. Production proceeds without any sort of general plan. Each one produces on his own account, regardless of the others; nobody knows what the demand is for the commodity which he is producing or how many other commodity producers are engaged in producing the same commodity, whether he will be able to find a market for his commodity or whether he will be reimbursed for the labour he has expended. With the development of commodity production the power exercised by the market over the commodity producers becomes ever greater.

This means that in commodity production based on private ownership of the means of production there operates *the economic law of competition and anarchy of production.* This law expresses the spontaneous nature of production and exchange, the struggle between private commodity producers for more advantageous conditions of production and sale of goods.

Under the conditions of anarchy of production which reign in commodity production based on private property, the law of value appears as the spontaneous regulator of production, acting through market-competition.

The law of value is an economic law of commodity production, by which the exchange of commodities is effected in accordance with the amount of socially-necessary labour expended on their production.

The law of value *regulates the distribution of social labour and means of production among different branches of commodity economy* spontaneously, through the price mechanism. Under the influence of fluctuations in the relationship of supply and demand the prices of commodities continually diverge either above or below their value. Divergences of prices from values are not a result of some defect in the operation of the law of value, but, on the contrary, are the only possible way in which it can become effective. In a society in which production is in the hands of private owners, working blindly, only the spontaneous fluctuations of prices on the market inform the commodity producers whether they have produced goods in excess of the effective demand by the population or have not produced sufficient to meet it. Only the spontaneous fluctuations of prices around values oblige commodity producers to extend or restrict the production of particular commodities. Under the influence of price-fluctuations, commodity producers rush into

those branches which appear most profitable at the given moment because the prices of commodities are higher than their values, and quit those branches where the prices of commodities are lower than their values.

The operation of the law of value conditions the *development of the productive forces* of commodity economy. As we have seen, the magnitude of the value of a commodity is determined by socially-necessary labour-time. The commodity producers who are the first to introduce a higher technique produce their commodities at reduced cost, in comparison with that which is socially-necessary, but sell these commodities at the prices which correspond to the socially-necessary labour. When they sell their commodities they receive a surplus of money and grow rich. This impels the remaining commodity producers to make technical improvements in their own enterprises. Thus, as a result of the separate actions of separate commodity producers, each striving for his own private advantages, progress takes place in technique and the productive forces of society are developed.

As a result of competition and anarchy of production, the distribution of labour and means of production between the various branches of economy and the development of the forces of production are accomplished in a commodity economy at the price of great waste of social labour, and lead to the contradictions of this economy becoming more and more acute.

In conditions of commodity production based on private property, the operation of the law of value leads to the *rise and development of capitalist relations*. Spontaneous fluctuations of market prices around values, and divergences of individual labour costs from the socially-necessary labour which determines the magnitude of the value of a commodity, intensify the economic inequality of the commodity producers and the struggle among them. This competitive struggle leads to some commodity producers *being ruined* and transformed into proletarians while others are *enriched* and become capitalists. The operation of the law of value thus brings about a differentiation among the commodity producers. "Small production *engenders* capitalism and the bourgeoisie continuously, daily, hourly, spontaneously and on a mass scale." (Lenin, "'Left-wing' Communism, an Infantile Disorder", *Selected Works*, 1951, English edition, vol. II, Pt. 2, p. 344.)

Commodity Fetishism

In conditions of commodity production based on private ownership of the means of production, the social link between people which exists in the production process makes its appearance only through the medium of exchange of commodities. The fate of the commodity producers is found to be closely connected with the fate of the commodities which they create. The prices of commodities continually change, independently of people's will or consciousness, and yet the level of prices is often a matter of life and death for the commodity producers.

Relations between things conceal the social relations between people. Thus, though the value of a commodity expresses the social relationship between commodity producers, it appears as a kind of natural property of the commodity, like, say, its colour or its weight. "It is a definite social relation between men," wrote Marx, "that assumes, in their eyes, the fantastic form of a relation between things." (K. Marx, *Capital*, Kerr edition, vol. I, p. 83.)

In this way, in a commodity economy based on private property, the production-relations between people inevitably appear as relations between things (commodities). In this transmutation of production-relations between persons into relations between things is inherent also the *commodity fetishism* which is characteristic of commodity production.[1]

Commodity fetishism is displayed with especial clarity in money. In commodity economy money is a tremendous force, giving power over men. Everything can be bought for money. It comes to seem that this capacity to buy anything and everything is a natural property of gold, whereas in reality it is a result of definite social relations.

Commodity fetishism has deep roots in commodity production, in which the labour of a commodity producer appears directly as private labour, and its social character is revealed only *in the exchange* of commodities. Only when private property in the means of production is abolished does commodity fetishism disappear.

[1] The transmutation of production-relations between persons into relations between things, characteristic of commodity production, is called "commodity fetishism" because of its resemblance to the religious fetishism which is involved in the deification by primitive men of objects which they themselves have made.

BRIEF CONCLUSIONS

(1) The point of departure for the rise of capitalism was the simple commodity production of craftsmen and peasants. Simple commodity production differs from capitalism in that it is based upon the individual labour of the commodity producer. At the same time it belongs fundamentally to the same type as capitalist production, in as much as its foundation is private ownership of the means of production. Under capitalism, when not only the products of labour, but labour power too becomes a commodity, commodity production acquires a dominant, universal character.

(2) A commodity is a product which is made for exchange, it appears from one angle as a use-value and from the other as a value. The labour which creates a commodity possesses a dual character. Concrete labour is labour expended in a definite form; it creates the use-value of a commodity. Abstract labour is the expenditure of human labour power in general; it creates the value of a commodity.

(3) Value is the social labour of the commodity producers embodied in a commodity. Value is an historical category which belongs only to commodity economy. The magnitude of the value of a commodity is determined by the labour which is socially-necessary for its production. The contradiction in simple commodity economy consists in the fact that the commodity producers' labour, which is directly their own private affair, bears at the same time a social character.

(4) The development of the contradictions of commodity production leads to one commodity spontaneously being singled out from the rest and becoming money. Money appears as the commodity which plays the role of universal equivalent. Money fulfils the following functions: (1) measure of value, (2) medium of circulation, (3) means of accumulation, (4) means of payment and (5) world-wide currency.

(5) With the growth of the circulation of money, paper money arises. Paper money, which lacks any value of its own, acts as a token for metallic money and replaces it as the circulation medium. An exceptionally large issue of paper money, causing its depreciation (inflation) leads to a lowering of the standard of life of the working people.

(6) In a commodity economy based on private property in the means of production, the law of value is the spontaneous regulator of the distribution of social labour between branches of production. The operation of the law of value causes a differentiation among the petty commodity producers and the development of capitalist relations.

CHAPTER V

CAPITALIST SIMPLE CO-OPERATION AND MANUFACTURE

Capitalist Simple Co-operation

Capitalism at first subjects production to itself just as it finds it, i.e., with the backward technique of handicraft and small-peasant economy; and only later, at a higher level of its own development, does it refashion production on new economic and technical foundations.

Capitalist production begins when the means of production are concentrated in private hands while the workers, deprived of means of production, are obliged to sell their labour power as a commodity. In handicraft production and in peasant crafts fairly large workshops are formed, belonging to capitalists. The capitalists extend the scale of production without at first changing either the instruments or the methods of work used by the petty producers. This primary stage in the development of capitalist production is called capitalist simple co-operation.

Capitalist simple co-operation is that form of social labour under which the capitalist exploits a more or less considerable number of wage-workers who are all employed simultaneously and all of whom carry out the same kind of work. Capitalist simple co-operation arises on the basis of the break-up of petty commodity production. The first capitalist enterprises were founded by merchant-engrossers[1] and money-lenders, or by master craftsmen and artisans who had become wealthy. Those who worked in these enterprises were ruined craftsmen and journeymen, who

[1] This word first appeared in England to describe traders who bought up corn or other commodities from their producers to resell elsewhere: the term occurs in the fourteenth century (they were also called "badgers", "forestallers" or "regraters" in the fifteenth century). But already in 1555 an Act of Parliament complained of "rich and wealthy clothiers" because of their "ingrossing of looms". These "clothiers" had begun in the fifteenth century by selling yarn to the weavers who worked at home in their cottages, and then buying back the cloth. Later the "clothiers" extended their operations at both ends. They bought the raw wool, sold it to the spinners (also working at home), and bought it back from them to resell to weavers as before. Then they paid dyers, fullers, etc., to work on the cloth. Finally, the "clothiers" began to assemble the weavers under one roof. See below, p. 96ff. *Editor, English edition.*

no longer had the possibility of becoming independent master craftsmen, together with the rural poor.

Capitalist simple co-operation has certain advantages over petty commodity production.

The bringing together of many workers in one enterprise makes for economy in means of production. To build, to heat and to light one workshop containing twenty persons costs less than to build and maintain ten workshops with two workers in each. Expenses for tools, store-rooms and transport of material and of the finished product are also reduced.

The results of the labour of an isolated craftsman depend to a considerable extent on his individual characteristics—strength, dexterity, skill, etc. In conditions of primitive technique differences between workers in these respects are very great. Merely for this reason alone the situation of a petty producer is extremely precarious. Commodity producers who expend in producing one and the same kind of commodity more labour than is required in average conditions of production are inevitably ruined. When many workers are together in a workshop individual differences between them tend to be evened out. The work of particular workers diverges in one direction or the other from the average social labour, but the joint work of many simultaneously-employed workers corresponds more or less to the average socially-necessary labour. For this reason, the production and sale of commodities by capitalist workshops become more regular and stable.

Under simple co-operation an economy of labour is achieved and the productivity of labour grows.

Let us take as an example the shifting of bricks by hand carried out by a chain of workers. Each separate worker accomplishes in this case one and the same movement, but his actions form part of one common operation. As a result the work goes much quicker than when each man separately shifts bricks. Ten men working together produce in the course of a working day more than the same ten men working separately, or than one man in the course of ten working days of the same length.

Co-operation enables work to be carried out simultaneously over a large area, for example, in the draining of marshes, the building of dams, canals and railways and also makes it possible to expend a considerable mass of labour in a small space, for

example, in the construction of buildings or in the cultivation of crops which require a great deal of labour.

Co-operation is of great importance in those branches of production where certain jobs must be carried out in a short time, for instance, harvesting, sheep-shearing, etc. The simultaneous employment of a large number of workers enables such jobs to be completed in a reduced time and thereby prevents the incurring of great losses.

Thus, co-operation gave a *new social productive force* to labour. The mere simple bringing together of the forces of separate workers led to an increase in the productivity of labour. This enabled the owners of the first capitalist workshops to produce commodities more cheaply and to compete successfully with the petty producers. The results of the new social productivity force of labour were appropriated without compensation by the capitalists and served to enrich them.

The Period of Capitalist Manufacture

The development of simple capitalist co-operation led to the rise of manufacture. *Manufacture* is capitalist co-operation based on division of labour and handicraft technique. Manufacture as a form of capitalist production prevailed in Western Europe approximately from the middle of the sixteenth century to the last third of the eighteenth century.

Manufacture arose in two different ways.

The first way was the bringing together by a capitalist in one workshop of craftsmen of *different* skills. In this way there arose, for example, a coach manufactory, which brought together within its walls craftsmen who had previously been independent: coachmakers, harnessmakers, upholsterers, locksmiths, coppersmiths, turners, braidmakers, glaziers, painters, polishers, etc. In the manufactory the production of a coach was divided into a large number of different, mutually-complementary operations, each of which was carried out by a particular worker. As a result of this the previous nature of the craftsmen's work underwent a change. For instance, a worker employed as a locksmith now carried out over a long period only certain definite operations connected with the production of a coach, and gradually ceased to be the locksmith who formerly had made a finished product all by himself.

The second way was the bringing together by a capitalist in a single workshop of craftsmen all of *one* skill. Formerly each of these craftsmen had independently carried out all the operations required to produce a given commodity. The capitalist broke down the process of production in his workshop into a series of separate operations, each of which was assigned to a worker who specialised in it. Thus arose, for example, the manufacture of needles. In a needle manufactory needles were passed through the hands of seventy-two or more workers: one drew the wire, another straightened it, a third cut it, a fourth sharpened the ends, and so on.

The division of labour in manufacture means the division of labour within an enterprise for the production of *one and the same* commodity, as distinguished from the division of labour in society between different enterprises for the production of *different* commodities.

Division of labour within a manufactory presupposes concentration of the means of production in the hands of a capitalist, who is at the same time the owner of the commodities produced. The wage-worker, unlike the petty commodity producer, does not produce the commodity independently; only the common product of the labour of many workers is transformed into a commodity. The division of labour within society presupposes the splitting up of the means of production among commodity producers who are separate from and independent of each other. The products of their labour, for instance, the labour of a joiner, a tanner, a cobbler and tiller of the soil, appear as commodities, and the link between the independent commodity producers is effected by means of the market.

A worker who carries out in a manufactory a particular operation for the production of a commodity, is a *detail*-worker. Constantly repeating one and the same simple operation, he expends in it less time and energy than does the craftsman who performs by turns a whole series of different operations. At the same time, along with this specialisation, labour becomes more intensive. Formerly the worker spent a certain amount of time in passing from one operation to another, and in changing his tools. In a manufactory this waste of working time was reduced. Gradually specialisation came to affect not only the workers but also the instruments of production; they became more and more closely adapted to that detail operation for which they were designed.

All this led to a further increase in the productivity of labour.

The production of needles furnishes a clear example. In the eighteenth century a small manufactory, employing ten workers, by means of division of labour produced in one day 48,000 needles, i.e., 4,800 needles were produced per worker. Yet without division of labour one worker could not have produced even twenty needles a day.

Specialisation of labour in the manufactory, associated with continual repetition of one and the same uncomplicated set of movements, maimed the worker physically and spiritually. Workers appeared with curvature of the spine, with hollow chests, etc. Thus, the growth of the productivity of labour in manufactories was achieved at the expense of crippling the worker. Manufacture "converts the worker into a crippled monstrosity, by forcing his detail dexterity at the expense of a world of productive capabilities and instincts". (Marx, *Capital*, Kerr edition, vol. 1, p. 396.)

Workers in manufacture were subjected to savage exploitation. Their working day reached 18 hours or more; their wages were extremely low, and the overwhelming mass of manufactory-workers lived in want; the new, capitalist labour-discipline was introduced by the most ruthless measures of compulsion and coercion.

The division of labour in manufacture, wrote Marx, "creates new conditions for the lordship of capital over labour. If, therefore, on the one hand, it presents itself historically as a progress and as a necessary phase in the economic development of society, on the other hand, it is a refined and civilised method of exploitation." (Marx, *Capital*, Kerr edition, vol. 1, p. 400.)

In slave-owning and feudal societies two forms of capital exist—merchant and usurers' capital. The rise of capitalist production signified the appearance of industrial capital. *Industrial capital* is capital invested in the production of commodities. One of the typical peculiarities of the manufacture period of capitalism is a close and inseparable connection between merchant and industrial capital. The owner of a manufactory was almost always an engrosser as well. He resold raw materials to small commodity producers, distributed material to their houses for them to work up, or else bought

particular parts of articles from small commodity producers, or bought finished articles from them for resale later. This sale of raw material to and purchase of products from small commodity producers became interwoven with debt-enslavement, which worsened the position of the small commodity producer to a tremendous degree, leading to prolongation of his working day and lowering of the earnings he received.

Capitalist Domestic Industry

In the period of capitalist manufacture the distribution of work to be done at home developed on an extremely wide scale.

Capitalist domestic industry means the working-up at home, on piece-rates, of material received from an entrepreneur. This form of exploitation was encountered sporadically even under simple co-operation. It is found also in the period of large-scale machine industry; but it is typical above all of manufacture. Capitalist domestic industry here figures as an *appendage* to manufacture.

In manufacture the division of labour breaks down the production of each commodity into a series of distinct operations. Often the engrosser-manufactory-owner found it profitable to set up a comparatively small workshop, where only the assembly or the ultimate finishing of the commodity was carried out. All the preparatory operations were performed by handicraftsmen and artisans who worked at home but were completely dependent on the capitalist. Frequently the artisans, scattered in different villages, had dealings not with the owner of the assembly workshop but with middlemen or foremen, who exploited them additionally.

The artisans and handicraftsmen working at home received from the capitalist payment which was considerably less than that given to workers employed in the capitalist's workshop. Masses of peasants whose need for money obliged them to seek extra work on the side were drawn into handicraft. In order to earn a small sum of money, the peasant exhausted himself and forced all his family to work as well. An excessively long working day, unhealthy working conditions, the most ruthless exploitation—such were the distinguishing features of capitalist domestic industry.

These features were found in the numerous handicraft industries of Tsarist Russia. Engrossers who became in practice the bosses of handicraft industry in a given village or district extensively introduced division of labour among the craftsmen. For example, in the Zavyalovs' establishment at Pavlovo (where more than 100 workers were employed in the assembly workshop in the 1860's) an ordinary penknife passed through the hands of eight of nine craftsmen. On it worked a smith, a blade-maker, a handle-maker, a temperer, a polisher, a finisher, a leveller and a stamper. Yet a substantial section of the detail-workers were employed not in the capitalist's workshop but in their own houses. A similar picture was shown by the carriage-making industry, feltmaking, a number of woodworking handicrafts, shoemaking, button-making, etc.

Numerous examples of savage exploitation of handicraftsmen are given by V. I. Lenin in his work *The Development of Capitalism in Russia*. Thus, in Moscow Province at the beginning of the 1880's, in unreeling cotton thread, and in knitting and other industries employing women, 37,500 women workers were engaged. Children began to work at the age of five or six. The average daily wage was thirteen kopeks; the working day lasted up to eighteen hours.

Role of Manufacture in History

Manufacture was the transitional form between the petty production of artisans and craftsmen and large-scale capitalist machine industry. A manufactory was akin to handicraft in that its basis remained hand technique, and to a capitalist factory in that it meant large-scale production based on exploitation of wage-workers.

The division of labour in manufacture was a notable step forward in the development of the productive forces of society. But manufacture, based on hand labour, was not in a position to supplant petty production. Typical of the manufacturing period of capitalism's development was a small number of relatively large-scale establishments alongside a considerable number of small ones. While a certain share of the commodities were produced in manufactories, the overwhelming mass of them were provided as before by craftsmen and artisans, who were dependent in varying degrees upon capitalist engrossers, putters-out and manufacturers. Thus, manufacture could not lay hold of the whole field of social production. It was a kind of superstructure; the basis remained as before, petty production with its primitive technique.

The role played by manufacture in history was that it

prepared the conditions necessary for the passage to machine production. In relation to this, three circumstances were of especial importance. First, manufacture, bringing the division of labour to a high level, simplified many working operations. They were reduced to such simple movements that it became possible to replace the worker's hands by machines. Second, the development of manufacture led to specialisation of the working tools, to their becoming considerably improved, as a result of which an advance from hand-operated tools to machines became possible. Third, manufacture prepared cadres of skilled workers for large-scale machine industry, thanks to their prolonged specialisation in the carrying out of particular operations.

Petty commodity production, capitalist simple co-operation and manufacture, with its appendage, capitalist domestic industry, are widespread at the present day in economically under-developed countries such as India, Turkey, Persia, etc.

Disintegration of the Peasantry. Transition from Labour-Service Economy to Capitalist Economy

In the manufacturing period of the development of capitalism industry became more and more separated from agriculture.

The growth in the social division of labour led to not only industrial products but also agricultural products being transformed into commodities. Specialisation of districts by crops and branches took place in agriculture. Districts where *commercial agriculture* was carried on made their appearance: flax-cultivation, sugar-beet production, cotton-growing, tobacco-growing, dairying, cheese-making, etc. On this basis exchange developed not merely between industry and agriculture but also between different branches of agriculture.

The further commodity production penetrated into agriculture, the fiercer became the competition between the tillers of the soil. The peasants fell into greater and greater dependence upon the market. Spontaneous fluctuation of prices on the market intensified and made more acute the inequality of property among the peasants. Spare money accumulated in the hands of the upper handful of well-to-do in the countryside. This money served them as a means to enslave and exploit the poorer peasants, becoming transformed into capital. One of the ways in which this enslavement was effected was the

purchasing for trivial sums of the products of the peasants' labour. Gradually the ruin of the peasantry attained such a level that many of them were forced completely to abandon their holdings and resort to selling their labour-power.

Thus, with the development of the social division of labour and with the growth of commodity production, a process of differentiation of the peasantry took place; capitalist relations were formed in the countryside, new social types of rural population, the classes of capitalist society, came into being—a rural bourgeoisie and an agricultural proletariat.

The *rural bourgeoisie* (or *kulaks*) carry on commodity production on the basis of employing hired labour, exploiting the permanent rural labourers and (still more) the day-labourers and other temporary workers whom they take on for seasonal field work. They concentrate in their possession a considerable share of the land (including leased land), draught animals and agricultural produce. They also own enterprises for the working-up of raw material, mills, threshing-machines, pedigree stock, etc. They usually also function as the village money-lenders and shopkeepers. All this serves as a means of exploiting the poor and a considerable section of the middle peasantry.

The agricultural proletariat is the mass of labourers, deprived of means of production and exploited by the landlords and rural bourgeoisie. The basic source of livelihood of the agricultural proletarian is the sale of his labour-power. The typical agricultural proletarian is a *hired worker with an allotment*. The tiny scale of the farming which he carries on on his patch of land, and his lack of draught animals and implements, inevitably compel a peasant of this kind to sell his labour-power.

Very close to the agricultural proletariat are the *rural poor*. The poor peasant has a small plot of land and a small number of cattle. The grain which such a peasant can grow is not sufficient for his needs. The money which he needs for food and clothing, to run his holding and pay his taxes, he is obliged to earn to a substantial extent by working for wages. A peasant like this has already half-ceased to be his own master and is a rural semi-proletarian. The standard of living of the poor peasant, as of the rural proletarian, is extremely low and is inferior to that of the industrial worker. The development of capitalism in agriculture leads to a continual growth in the ranks of the rural proletariat and poor peasantry.

An intermediate position between the rural bourgeoisie and the poor peasants is occupied by the middle peasantry.

The *middle peasantry* carry on agriculture on the basis of their own means of production and their personal labour. Only under favourable conditions does the labour of the middle peasant on his holding guarantee the livelihood of his family. Hence the instability of the middle peasant's situation. "In its social relationships this group oscillates between the higher group towards which it gravitates and into which only a fortunate minority succeeds in entering, and the lower group into which the whole process of evolution is forcing it." (Lenin, "Development of Capitalism in Russia", *Selected Works*, 12-vol. edition, vol. 1, p. 235.) A process of ruining and "erosion" of the middle peasantry goes on.

Capitalist relations in the agriculture of bourgeois countries are interwoven with survivals of serfdom. The bourgeoisie when it came to power did not, in the majority of countries, abolish large-scale feudal landownership. The landowners' estates gradually adapted themselves to capitalism. The peasantry, freed from servile dependence but deprived of a substantial part of the land, suffocated from land hunger. It was obliged to lease land from the landlords on extortionate terms.

In Russia, for example, after the reform of 1861, the most widespread form of exploitation of the peasants by the landlords was *work-payment*, by which the peasant was obliged, either in return for the lease of land or to repay a loan contracted on extortionate terms, to work on the landlord's farm, using his own means of production—draught animals and primitive implements.

The disintegration of the peasantry undermined the foundations of the landlords' economy, which was carried on by means of work-payment, exploiting an economically dependent peasantry, and was based on backward technique. The well-to-do peasant was in a position to rent land for money and so did not need to accept extortionate terms of lease which obliged him to perform work-payment. The poor peasant was also unsuitable for the work-payment system, but for a different reason: lacking means of production, he was transformed into a wage-worker. The landlord could use for work-payment mainly the middle peasantry. But the development of commodity economy and commercial agriculture, by ruining the

middle peasantry, undermined the work-payment system of economy. The landlords extended their employment of hired labour, which was more productive than the labour of dependent peasants; the importance of the capitalist system of economy grew while that of the work-payment system declined. Work-payment, however, as a direct survival of week-work was, preserved for a long time alongside the capitalist system of economy.

Formation of a Home Market for Capitalist Industry

With the development of capitalism in industry and agriculture there took place the formation of a *home market.*

Already in the period of manufacture a number of new branches of industrial production arose. One after another various forms of industrial processing of agricultural raw material were separated off from agriculture. With the growth of industry the demand for agricultural products continually grew. In connection with this a widening of the market took place. Districts which specialised in the production, e.g., of cotton, flax or sugar-beet, or in stock-raising, had a demand for grain. Agriculture increased its demand for various products of industry.

The home market for capitalist industry is formed by the very development of capitalism, by the disintegration of the petty commodity producers. "The divorcement of the direct producer from the means of production, i.e., his expropriation, which signifies the transition from simple commodity production to capitalist production (and which is the necessary condition for this transition), *creates* the home market." (Lenin, "Development of Capitalism in Russia", *Selected Works*, 12-vol. edition, vol. 1, p. 223.) The process of formation of the home market bore a two-fold character. On the one hand, the bourgeoisie of town and country presented a demand for means of production: improved implements of labour, machines, raw materials, etc., needed to extend the existing capitalist enterprises and build new ones. The bourgeoisie's demand for consumer goods increased. On the other hand, the increase in the numbers of the industrial and agricultural proletariat, inseparably connected with the disintegration of the peasantry, was accompanied by an increase in the demand for commodities serving as means of subsistence for the workers.

Manufacture, based as it was on primitive technique and hand labour, was not in a position to satisfy the growing demand for industrial commodities. The economic necessity arose to pass over to large-scale machine production.

BRIEF CONCLUSIONS

(1) Capitalist simple co-operation is a form of production based on exploitation by a particular capitalist of a more or less substantial number of simultaneously-employed wage-workers who all carry out work of the same kind. Capitalist simple co-operation secured economy in means of production, created a new social productive force of labour, reduced the expenditure of labour per unit of production. The results of the growth in the productive power of social labour were appropriated by the capitalists without compensation.

(2) Manufacture is large-scale capitalist production based on hand technique and division of labour among wage-workers. The division of labour under manufacture considerably enhanced the productivity of labour, while at the same time mutilating the wage-worker by dooming him to an extremely one-sided development. Manufacture created the necessary prerequisites for the transition to large-scale machine industry.

(3) The development of commodity production leads to disintegration of the peasantry. A small upper section of countryfolk pass into the ranks of the bourgeoisie, while a substantial section of the peasantry pass into the ranks of the proletariat—urban and rural; the poor grow in numbers; the broad intermediate stratum of middle peasants falls into ruin. The disintegration of the peasantry undermines the foundations of the work-payment system. The landlords increasingly pass over from labour-service economy to capitalist economy.

(4) The home market is formed by the very development of capitalism. Extension of the home market signifies an increase in the demand for means of production and for means of subsistence. Manufacture, based on backward technique and hand labour, was not in a position to satisfy the demand for industrially produced commodities presented by the growing market. The need arose to pass on to machine industry.

CHAPTER VI

THE MACHINE PERIOD OF CAPITALISM

Transition from Manufacture to Machine Industry

So long as production remained based on hand labour, as was the case in the period of manufacture, capitalism could not achieve a radical revolution in the economic life of society. Such a transformation was effected with the transition from manufacture to machine industry, which began to take place in the last third of the eighteenth century and spread throughout the principal capitalist countries of Europe and the U.S.A. during the nineteenth century.

The material, technical foundation for the revolution was the *machine*.

Every developed machine consists of three parts: (1) the motor mechanism, (2) the transmitting mechanism, (3) the working machine.

The *motor mechanism* acts as the moving force of the entire mechanism. It either generates the driving power itself (e.g., the steam engine), or obtains it from outside, from some available force of nature, (e.g., the water-wheel, moved by the force of falling water).

The *transmitting mechanism* consists of all kinds of devices (transmissions, cog-wheels, belts, electrical systems, etc.) which regulate movement, change its form where necessary (e.g., transforming a straight-line movement into a circular one), distribute it and transfer it to the working machine. Like the motor mechanisms, the transmitting mechanism serves to set the working machine in motion.

The *working machine* acts directly on the object of labour and produces the changes needed in it in accordance with a defined aim. If the working machine is examined more closely there will be found in it, albeit often in very altered forms, the same tools on the whole as are used in hand work. But in every case these are not hand-work tools any more, they are tool-mechanisms, mechanical tools. The working machine was the point of departure of the revolution which led to the replacement of manufacture by machine production. After mechanical tools had been invented radical changes were introduced in the construction of the driving and transmitting mechanisms.

In its insatiable pursuit of profit capital acquired in the machine a mighty means of increasing the productivity of

labour. First, the use of machines, which put a multitude of tools into operation simultaneously, freed the production process from the narrow limits imposed by the limitations of the human limbs. Second, the use of machines provided for the first time the possibility of employing in production tremendous new sources of energy—the motive power of steam, gas and electricity. Third, the use of machines enabled capital to place science at the service of production, extending the power of man over nature and revealing ever new possibilities of raising the productivity of labour. On the basis of large-scale industry the domination of the capitalist mode of production was consolidated. In large-scale machine industry capitalism found its appropriate material and technical foundation.

The Industrial Revolution

Large-scale machine industry began in *Britain.* Favourable historical conditions had been formed in that country for a rapid development of the capitalist mode of production: the early abolition of serfdom and ending of feudal disunity, the victory of the bourgeois revolution in the seventeenth century, the forcible dispossession of the peasantry, and also the accumulation of capital by way of an extensive development of trade and of the plundering of colonies.

In the middle of the eighteenth century Britain was the country with the largest number of manufactories. The most important branch of industry was textile production. It was in this industry that the *industrial revolution* began which took place in Britain in the course of the last third of the eighteenth century and the first quarter of the nineteenth.

The extension of the market and the capitalists' striving for profit made necessary an improvement in technique of production. In the cotton industry, which was developing more rapidly than other branches, hand labour predominated. The principal operations in the cotton industry are spinning and weaving. The product of the spinners' work serves as the material of the weavers' work. The increase in the demand for cotton cloth pressed in the first place on the technique of weaving: in 1733 the *flying shuttle* was invented, which doubled the productivity of the weaver's labour. This led to spinning lagging behind weaving. In the manufactories the looms often

stood idle for lack of yarn. An urgent need to improve spinning technique arose.

This task was solved by means of the invention (in 1765–7) of *spinning machines*, each of which had fifteen to twenty spindles. The driving power of the first machines was at first provided by human beings or draught animals, but later machines appeared which were operated by water power. Further technical improvement led not only to an increase in the amount of yarn produced but also to improvement in its quality. At the end of the eighteenth century there were already in existence spinning machines with up to 400 spindles. As a result of these inventions the productivity of labour in spinning greatly increased.

There now arose in the textile industry another discrepancy: spinning had outstripped weaving. This discrepancy was overcome by the invention in 1785 of a *mechanical loom*. After a number of improvements the mechanical loom was introduced on a wide scale in Britain, and by the 1840's had completely ousted hand-weaving. The processes of working up cloth—bleaching, dyeing, printing—also underwent radical changes. The application of chemistry shortened the time taken by these processes and improved the quality of the product.

The first textile factories were built on the banks of rivers and the machines were driven by means of water-wheels. This greatly restricted the possibility of using machine technique. A new kind of prime mover was needed which was not dependent on a particular place or season. Such a prime mover was *the steam engine*.

The steam engine was invented in its primary form as far back as the manufacturing period, and from 1711 to 1712 was in use in the English mining industry in the form of a pump for extracting water from mines. The industrial revolution in England gave rise to a demand for a universal steam engine. This task was accomplished in England in the 1780's through the perfecting of the steam engine already in existence.

The introduction of the steam engine was of enormous importance. The steam engine was a prime mover of universal significance, free from the numerous shortcomings inherent in a water-driven engine. Using coal and water, the steam engine produces a motive force which is wholly under man's control. This machine is movable; it frees industry from its attachment

to natural sources of power and makes it possible to concentrate industry in any place desired.

The steam engine became widespread not only in Britain but also beyond its bounds, creating the prerequisites for the appearance of large-scale factories with many machines and a large number of workers.

Machines revolutionised production in all branches of industry. Not only did they seize hold of cotton production, they also came to be used in the woollen, linen and silk industries as well. Means were quickly found of using steam engines in transport: in 1807 the first steamboat was built in the U.S.A., and in 1825 in Britain the first railway was built.

At first machines were produced in manufactories by means of hand labour. They were expensive and were insufficiently powerful and precise. The manufactories could not produce such a quantity of machines as was required by rapidly-growing industry. This task was solved by going over to production of machines by machines. There arose a new, rapidly-developing branch of industry—*engineering*. The first machines were made mostly of wood. Later the wooden parts of machines were replaced by metal ones. The replacement of wood by metal, which increased the longevity and durability of machines, revealed the possibility of working at such speed and with such intensity as previously had been unthinkable. At the beginning of the nineteenth century there were invented mechanical hammers, presses and metal-working lathes: first turners' lathes, then milling and boring-machines.

For the production of machines, locomotives, rails and steamships an enormous quantity of iron and steel was needed. *Metallurgy* began to develop quickly. Of great importance in the development of metallurgy was the discovery of a method of smelting iron ore with mineral fuel instead of with charcoal. The blast-furnace was increasingly improved. In the 1830's cold blast began to be replaced by hot, which quickened the blast process and gave a large saving of fuel. New, improved methods of smelting steel were discovered. The spread of the steam engine and the growth of metallurgy created a need for enormous quantities of coal, which led to a rapid growth of the coal industry.

As a result of the industrial revolution Britain was transformed into the industrial workshop of the world. After

Britain, machine production spread in other countries of Europe and in America.

The industrial revolution in *France* took place in the course of the few decades immediately following the bourgeois revolution of 1789–94. The capitalist factory became predominant in French industry only in the second half of the nineteenth century.

In *Germany*, owing to its feudal disunity and the continued survival of relations originating in serfdom, the industrial revolution took place later than in Britain and France. Large-scale industry began to develop in Germany only from the 1840's onward and advanced especially quickly after the unification of Germany into a single State in 1871.

In the *U.S.A.* large-scale industry arose at the beginning of the nineteenth century. American machine industry began to develop rapidly after the Civil War of 1861–5. When this happened the technical achievements of British industry were widely drawn upon, together with an influx of surplus capital and of cadres of skilled workers from Europe.

In *Russia* the transition from manufacture to the machine stage of production began before the abolition of serfdom, but developed to its full extent in the first decades after the Reform of 1861. However, even after the fall of serfdom numerous survivals of the feudal-serf-owning system in the country hindered the transition of industry from hand to machine production. This circumstance affected to an especially striking extent the mining industry of the Urals.

Capitalist Industrialisation

The industrial revolution marked the beginning of capitalist industrialisation. The basis of industrialisation is heavy industry, the production of the means of production.

Capitalist industrialisation takes place spontaneously, in response to the capitalists' drive for profit. The development of large-scale capitalist industry usually begins with the development of *light* industry, i.e., the branches producing consumer goods. These branches require a smaller investment of resources and capital circulates faster in them than in *heavy industry*, i.e., in the branches producing means of production—machines, metals, fuel. Heavy industry begins to be developed only at the end of a more or less long period of time during which light industry piles up profits. These profits are gradually pumped into heavy industry. Thus capitalist industrialisation is a process which takes many decades.

In Britain, for example, the textile industry for a long time remained the most developed branch of industry. In the second half of the century heavy industry began to play the predominant role. The same order of succession in the development of branches of industry occurred in the other capitalist countries too.

In the second half of the nineteenth century metallurgy continued to develop; the technique of smelting metal improved, the size of blast-furnaces increased. The production of pig-iron grew. In Britain the production of pig-iron increased from 193,000 tons in 1800 to 2,285,000 tons in 1850, 6,059,000 tons in 1870 and 7,873,000 tons in 1880. In the U.S.A. it grew from 41,000 tons in 1800 to 573,000 tons in 1850, 1,692,000 tons in 1870 and 3,897,000 tons in 1880.

Down to the last third of the nineteenth century the steam engine remained the only kind of engine used in large-scale industry and transport. Steam played a very great role in the development of machine industry. Throughout the nineteenth century further improvement of the steam engine continued; the capacity of steam-driven machines increased and also the degree of utilisation of heat energy. In the 1880's the *steam turbine* came into being. Thanks to its advantages it began to oust the steam engine from a number of branches.

However, the more large-scale industry grew, the more rapidly did the inadequacy of steam as a motive force become apparent. A new kind of mover was invented—the *internal combustion engine*, at first using gas (1877), and then an engine working on liquid fuel, the diesel (1893). In the last third of the nineteenth century a new and powerful force appeared in the arena of economic life, which revolutionised production still more—*electricity*.

In the nineteenth century machine technique laid hold of one branch of industry after another. The mining industry—extraction of ores and of coal—developed. In connection with the invention of the internal combustion engine the extraction of petroleum increased. The chemical industry underwent extensive development. The rapid growth of large-scale machine industry was accompanied by intense building of railways.

Capitalist industrialisation is brought about both by means of the exploitation of the wage-workers and the ruin of the peasantry of the country concerned and also by means of the plundering of the working people of other lands, especially

colonies. It leads inevitably to a sharpening of the contradictions of capitalism, to the impoverishment of millions of workers, peasants and craftsmen.

History has seen various paths of capitalist industrialisation. The first path of capitalist industrialisation is the path of conquest and plunder of colonies. That was how Britain's industry developed. Having conquered colonies in all parts of the world, Britain pumped enormous profits out of them for two centuries and invested the profits in her own industry.

The second path is the path of war and the imposing of indemnities by victor countries on defeated countries. Thus Germany, after defeating France in the Franco-Prussian War, obliged her to pay five thousand million francs as indemnity and invested these in her own industry.

The third path is the path of enslaving concessions and loans, which lead to the economic and political dependence of backward countries upon the capitalistically developed countries. Tsarist Russia, for example, granted concessions and obtained loans from the Western Powers on extortionate terms, endeavouring in this way to advance gradually along the path of industrialisation.

In the history of various countries these different paths of capitalist industrialisation were often interwoven and supplemented each other. The history of the economic development of the U.S.A. offers an example. The large-scale industry of the U.S.A. was created with the aid of foreign loans and long-term credits, and also by way of unrestrained plundering of the indigenous population of America.

Despite the development of machine industry in the bourgeois countries, a very great part of the population of the capitalist world continues to live and work under conditions in which primitive hand technique predominates.

Growth of Towns and Industrial Centres. Formation of the Class of Proletarians

Capitalist industrialisation caused a rapid growth of towns and industrial centres. The number of large towns in Europe (with populations exceeding 100,000) increased sevenfold during the nineteenth century. The proportion of the urban population grew unceasingly at the expense of the agricultural

population. In Britain as early as the middle of the nineteenth century, and in Germany by about the beginning of the twentieth century, more than half of the entire population was concentrated in towns.

In the period of capitalist manufacture the masses of wage-workers did not yet represent a settled class of proletarians. The workers in the manufactories were relatively few and to a considerable degree they were connected with agriculture, dispersed among a multitude of small workshops and kept apart by all sorts of narrow craft interests.

As a result of the industrial revolution and the further development of machine industry an *industrial proletariat* was formed in the capitalist countries. The working class grew rapidly in numbers, its ranks being continually reinforced from those of the peasantry and craftsmen who were being ruined.

With the growth of large-scale machine-industry the local, craft and caste interests and prejudices of the earliest generations of workers were gradually outlived, along with their utopian aspirations to get back to the lost position of the medieval craftsman. The mass of workers were welded into a single class, the proletariat. Describing the formation of the proletariat as a class, Engels wrote:

> "Only the development of capitalist production, modern industry and agriculture on a large scale, gave continuity to its existence, enlarged its numbers and formed it as a special class with special interests and with a special historical mission." Engels, "The Workers' Movement in America", Marx and Engels, *Works*, Russian edition, vol. XVI, Pt. 1, p. 287.)

In *Britain* the number of the workers in industry and transport in the second decade of the nineteenth century amounted to about two millions; during the ensuing hundred years the number grew more than threefold.

In *France* the workers in industry and transport in the 1860's numbered about two millions, but at the beginning of the twentieth century there were nearly 3,800,000.

In the *U.S.A.* the number of workers in industry and transport amounted in 1859 to 1,800,000 and in 1899 to 6,800,000.

In *Germany* the number of workers in industry and transport grew from 700,000 in 1848 to 5 millions in 1895.

In *Russia* after the abolition of serfdom the process of forming a working class went forward rapidly. In 1865, 706,000 workers were

employed in large factories and works, in mining and on the railways; in 1890 they numbered 1,433,000. Thus, the number of workers in large-scale capitalist enterprises more than doubled in twenty-five years. Towards the end of the 1890's the number of workers in large factories and works, in mining and on the railways had reached 2,207,000 in fifty provinces of European Russia, and in Russia as a whole had reached 2,792,000.

The Capitalist Factory. The Machine as a means whereby Capital exploits Wage Labour

The *capitalist factory* is a large-scale industrial enterprise based on the exploitation of wage-workers and using a system of machinery for the production of commodities.

A *system of machinery* is an aggregate of working machines which simultaneously carry out uniform production operations (e.g., looms of the same type), or an aggregate of working machines which, though of different kinds, are complementary to each other. A system of machinery of different kinds means a combination of detail-working machines, based on a distribution of production operations amongst them. Each detail machine supplies work to another machine. The machines operate simultaneously, the product continuously going through different stages of the production process and passing from one phase of production to another.

The introduction of machines ensures a tremendous growth in the productivity of labour and reduction in the value of commodities. The machine makes it possible to produce the same number of commodities with very much less expenditure of labour, or to produce with the same expenditure of labour a considerably larger number of commodities.

In the nineteenth century the working-up of a given quantity of cotton into yarn, using a machine, required only 1-180th of the labour-time taken when a hand-operated spinning wheel was used. Using a machine one adult or adolescent worker could in one hour print as many four-coloured chintzes as previously, by hand labour, could be printed by 200 adult workers. In the eighteenth century, under the manufacturing division of labour, a worker made 4,800 needles a day; in the nineteenth century one worker, operating four machines at once, produced up to 600,000 needles a day.

Under the capitalist mode of production all the advantages of introducing machines are appropriated by the owners of these machines, the capitalists, whose profits grow.

The factory is the highest form of capitalist co-operation. Capitalist co-operation, as joint work carried out on a relatively large scale, makes necessary a special function of management, supervision, co-ordination of the separate jobs. In a capitalist enterprise the function of management belongs to the capitalist and has specific features which figure at the same time as functions of exploitation of the wage-workers by capital. The capitalist is not a capitalist because he manages an industrial enterprise; on the contrary, he becomes the manager of an enterprise because he is a capitalist.

Already under simple capitalist co-operation the capitalist freed himself from physical work. With the growth in the scale of co-operation of labour he frees himself also from the function of direct and constant supervision of his workers. He transfers these functions to a special category of wage-workers—managers and foremen—who give orders in the enterprise in the capitalist's name. By its very nature, capitalist management is despotic.

With the transition to the factory the creation by capital of a special *capitalist labour-discipline* is complete. Capitalist labour-discipline is the discipline of hunger. Under it, the worker lives constantly under the threat of dismissal from the factory, in fear of finding himself in the ranks of the unemployed. Barrack discipline is characteristic of the capitalist factory. Workers are punished by means of money fines and deductions from their wages.[1]

In itself the machine is a mighty means of lightening labour and enhancing its productivity. Under capitalism, however, the machine serves as a means of intensifying the exploitation of wage-labour.

From its very first introduction the machine became a competitor with the worker. The capitalist use of machines first and foremost deprives of their livelihood tens and hundreds of thousands of hand workers, who became redundant. For example, when steam-operated looms were installed on a large scale, 800,000 English and Scotch weavers were thrown on to the street. Millions of weavers were condemned to hunger and

[1] The British reader is reminded that these conditions and those described in subsequent passages, which were universal in British industry 100–150 years ago and survived in many trades much later, may have been modified by organised pressure of the British working class, but still exist today in many capitalist countries —including British colonies—*Editor, English edition.*

death in India because Indian hand-produced cloth could not stand up to the competition of British machine-made cloth. In consequence of the increasing use of machines and their increasing improvement, more and more wage-workers are ousted by machines and thrown out of the capitalist factories on to the streets, filling the ranks of the growing army of unemployed.

The machine simplifies the production process and makes superfluous the use of great muscular strength by the worker. For this reason, with the transition to machine technique, capital extensively draws women and children into production. The capitalist obliges them to work under hard conditions and for wretchedly small pay. This results in a high level of child mortality in working-class families and the physical and moral crippling of women and children.

The machine opens up extensive possibilities of reducing the labour-time needed for the production of a commodity and so of shortening the working day. Under capitalism, however, it is used as a means of lengthening the working day. In the pursuit of gain the capitalist tries to use his machines to the full. First, the longer a machine is in paying use during a working day, the sooner he recovers its cost. Second, the longer the working day and the more fully the machine is used, the less danger there is that the machine will become technically obsolete and that other capitalists will succeed in adopting better or cheaper machines and so place themselves in more advantageous conditions of production. The capitalist strives therefore to lengthen the working day to its maximum.

In the capitalists' hands the machine is used to pump more labour out of the worker during a given period of time. The excessive intensity of labour, overcrowding in the factory premises, the inadequacy of air and light, the absence of measures necessary for ensuring safety at work lead to mass incidence of occupational diseases among workers, the undermining of their health and the shortening of their lives.

Machine technique opens up a wide field for the utilisation of science in the production process and for making labour more intelligent and creative. Capitalist use of machines, however, leads to the worker becoming transformed into an *appendage to the machine*. To the worker's lot falls only monotonous and exhausting physical work. Mental work becomes the

privilege of certain special workers: engineers, technicians, scientists. Science serves capital. The *antagonism between physical and mental labour* continually deepens.

The machine signifies in itself a strengthening of man's power over the forces of nature. By raising the productivity of labour the machine increases society's wealth. But this wealth is taken by the capitalists, and the position of the working class, the principal productive force of society, continually worsens.

Marx showed in *Capital* that it is not machines themselves that are the enemies of the working class but the capitalist social order under which they are used. He wrote that

> "machinery, considered alone, shortens the hours of labour, but, when in the service of capital, lengthens them; in itself it lightens labour, but when employed by capital, heightens the intensity of labour; in itself it is a victory of man over the forces of nature, but in the hands of capital, makes man the slave of these forces; in itself it increases the wealth of the producers, but in the hands of capital makes them paupers." (Marx, *Capital*, Kerr edition, vol. I, p. 482.)

From the very first rise of capitalist relations there began *the class struggle between the wage-workers and the capitalists*. It went on during the whole of the period of manufacture and with the transition to machine production assumed large dimensions and unprecedented sharpness.

The way in which the as yet immature labour movement expressed its protest against the baneful effects of the capitalist use of machine technique was to try to destroy the machines. The first cloth-shearing machine, invented in 1758, was set on fire by workers whom the introduction of this machine had put out of work. At the beginning of the nineteenth century an extensive "machine-wrecking" movement developed in the industrial areas of Britain, directed first and foremost against the steam-driven looms. The working class needed a certain amount of time and experience to understand that the oppression and poverty under which it suffered were due not to the machines themselves but to the use made of them by the capitalists.

The capitalists made extensive use of the machine as a potent weapon for putting down the periodical workers' outbreaks, strikes, etc., directed against the dictatorship of capital. After 1830 a substantial number of inventions were evoked in Britain directly by the requirements of the class struggle of the capitalists

against the workers, the endeavour being made by the capitalists, through reducing the number of workers employed and using labour which was less skilled, to break the resistance of the workers to their oppression by capital.

Thus the capitalist use of machines causes a worsening in the position of the workers and a sharpening in the class contradictions between capital and labour.

Large-scale Industry and Agriculture

The development of large-scale industry led to machines beginning to be introduced in agriculture as well. One of the weightiest advantages of large-scale agricultural production is that it makes possible the use of machines. Machines increase the productivity of labour in agriculture to an enormous extent. They are, however, beyond the resources of the petty peasant economy, for the purchase of machines demands a substantial outlay. In addition, the machine can be used effectively over large cultivated areas, for introducing industrial crops, etc. In large-scale economy based on machine technique the expenditure of labour per unit of production is markedly less than in petty peasant economy based on backward technique and hand labour. Consequently, petty peasant economy cannot stand up to the competition of large-scale capitalist economy.

The widespread use of agricultural machinery under conditions of capitalism hastens the process of differentiation among the peasantry. "The systematic employment of machinery in agriculture squeezes out the patriarchal 'middle' peasant as inexorably as the steam-driven loom squeezes out the hand-loom weaver." (Lenin, "Development of Capitalism in Russia", *Selected Works*, 12-vol. edition, vol. 1, p. 274.) Capitalism, in elevating the technique of agriculture and advancing it, ruins the mass of petty producers. Yet hired labour-power is so cheap in agriculture that many large-scale estates do not use machines but prefer to use hand labour. This hinders the development of machine technique in agricultural production.

Capitalist use of machines in agriculture is inevitably accompanied by intensified exploitation of the agricultural proletariat through raising the intensity of work. For instance, a kind of reaping machine which was widely used in its time was

called "the brow-warmer" because working with it demanded great physical exertion.

In the machine period of capitalism the separation of industry from agriculture is completed and the *antithesis between town and country* deepened and made more acute. Under capitalism agriculture increasingly lags behind industry in its development. Lenin declared that the agriculture of the capitalist countries at the beginning of the twentieth century was at about the stage of manufacture so far as its technical and economic level was concerned.

Under capitalism the introduction of machine technique in agriculture proceeds much more slowly than in industry. While the steam engine made possible fundamental technical transformations in industry, in agriculture it was used only in the form of the steam-driven threshing machine. In the comprehensive mechanical thresher were later combined the threshing, cleaning and sorting of the grain. Only in the last quarter of the nineteenth century were horse-drawn machines for grain-harvesting—harvester-binders—brought into wide use. The caterpillar tractor was invented as far back as the 1880's and the wheeled tractor at the beginning of the twentieth, but the more or less extensive employment of the tractor on large capitalist farms began only in the 1920's, mainly in the U.S.A.

Down to the present day the basic motive power in the agriculture of the majority of capitalist countries is provided by draught animals, and the implements with which the soil is worked are the horse-drawn plough, harrow and cultivator.

Capitalist Socialisation of Labour and Production. Limits to the Use of Machines under Capitalism

On the basis of machine technique great progress was achieved under capitalism in the development of the productive forces of society as compared with the feudal mode of production. The machine was a revolutionary force which transformed society.

"The transition from manufacture to the factory marks a complete technical revolution, which eliminates the age-old skill of the handicraftsman, and this technical revolution is followed by an extremely sharp change in the social relations in production, by a final rupture between the various groups taking part in production, a complete rupture with tradition, the intensification and expansion of all the gloomy sides of

capitalism, and at the same time the mass socialisation of labour by capitalism. Thus, large-scale machine industry is the last word of capitalism, the last word of its negative and 'positive' aspects." (Lenin, "Development of Capitalism in Russia", *Selected Works*, 12-vol. edition, vol. 1, p. 303.)

On the basis of large-scale machine industry a spontaneous process of extensive *socialisation of labour* by capital is accomplished.

First, as a result of the use of machines industrial production is more and more concentrated in large-scale enterprises. The machine itself requires the joint labour of many workers.

Second, a further development takes place under capitalism in the social division of labour. The number of branches of industry and agriculture is increased. At the same time the separate branches and enterprises become even more dependent one upon another. With this extensive specialisation of branches a factory-owner producing, for example, cloth, becomes directly dependent on a factory-owner producing yarn, the latter upon a capitalist who produces cotton, an owner of an engineering works, of collieries, etc.

Third, the disunity of petty economic units characteristic of natural economy disappears, and the petty local markets become fused in a vast national and world market.

Fourth, capitalism with its machine technique does away with the various forms of personal dependence affecting the worker. The basis of production becomes free hired labour. Greater mobility of the population is brought about, which guarantees an unfailing supply of labour-power to the growing branches of industry.

Fifth, with the spread of machine production a great number of industrial centres and large towns arise. Society is more and more split into two basic antagonistic classes—the class of capitalists and the class of wage-workers.

The socialisation of labour and production, for which machine technique served as the foundation, was a notable step forward in the progressive development of society. But the selfish interests of the capitalists, avid for profits, set a definite limit to the development of the productive forces.

From the social standpoint it is advantageous to use a machine if the labour which it costs to produce the machine is less than the labour which will be saved by using it, and

also if the machine lightens labour. But for the capitalist neither economising social labour nor lightening the worker's labour means anything; all he cares about is economising on wages. The limit to the use of machines is therefore for the capitalist a narrower one. It is set by the difference between the price of the machine and the wages of the workers displaced by it. The lower the wages of the workers the weaker the incentive to the capitalist to introduce machinery. Therefore hand labour is still widely used to this day in the industry of capitalist countries.

Large-scale machine industry sharpened the competitive struggle between the capitalists and intensified the spontaneity and anarchy of all social production. Capitalist use of machines brought about not only a rapid development of the productive forces of society but also an unprecedented growth in the oppression of labour by capital and sharpening of all the contradictions of the capitalist mode of production.

BRIEF CONCLUSIONS

(1) The transition from manufacture to large-scale machine industry meant an industrial revolution. Of very great importance for the transition to machine industry were: the invention of the steam engine, improvement in the method of smelting metal, and the making of machines to produce machines. The machine conquered one province of the production of commodities after another.

(2) With the growth of capitalism there took place the process of capitalist industrialisation of the most important countries of Europe and America. Capitalist industrialisation begins as a rule with the development of light industry. In the industrialisation of capitalist countries a big role is played by the plundering of colonies and conquered countries and also the obtaining of loans on extortionate terms. Capitalist industrialisation is based on the exploitation of wage-labour and intensifies the ruining of the broad masses of peasants and craftsmen. It leads to a further growth in the social division of labour, completes the separation of industry from agriculture, and makes more acute the antithesis between town and country.

(3) The capitalist factory is a large-scale enterprise, based upon exploitation of wage-workers and employment of a system

of machines for producing commodities. Management in the capitalist factory is despotic in character. In capitalist society the use of machines is accompanied by increasingly burdensome labour of the wage-worker, his intensified exploitation and the drawing into production of women and children, who are paid extremely low wages. Capitalist machine production completes the process of separating mental labour from physical and sharpens the antithesis between them.

(4) The development of large-scale machine industry leads to the growth of cities, to an increase in the urban population at the expense of the rural, to the formation of a class of wage-workers (the proletariat), and to growth in the numbers of the latter. The introduction of machinery into agriculture is an advantage for large-scale production. It leads to raising the productivity of labour and hastens the process of disintegration of the peasantry. Under capitalism agriculture lags further and further behind industry, and this deepens the antithesis between town and country.

(5) Large-scale machine industry plays a progressive role in history, leads to the growth of the productivity of labour and to the socialisation of labour by capital. The limits to the use of machinery by the capitalists are set by the fact that capitalists introduce machinery only where its price is less than the wages of the workers displaced by it.

CHAPTER VII

CAPITAL AND SURPLUS-VALUE. THE BASIC ECONOMIC LAW OF CAPITALISM

The Basis of Production Relations in the Capitalist System

With the transition from manufacture to large-scale machine industry the capitalist mode of production became predominant. In industry, in place of craft workshops and manufactories based on hand labour, factories and works appeared in which labour was equipped with complicated machinery. Large-scale capitalist farms began to arise in agriculture, using comparatively developed agronomical technique and agricultural machinery. New techniques developed, new productive forms came into being, and new capitalist production-relations became predominant. An investigation of the production-relations of capitalist society in their rise, development and decline makes up the principal content of Marx's *Capital*.

The basis of the production-relations of bourgeois society is capitalist property in the means of production. *Capitalist property* in the means of production means the private property of the capitalists, not derived from their own labour, and used for exploitation of wage-workers. In Marx's classic definition,

> "the capitalist mode of production rests on the fact that the material conditions of production are in the hands of non-workers in the form of property in capital and land, while the masses are only owners of the personal conditions of production, of labour-power". (Marx, "Critique of the Gotha Programme", Marx and Engels, *Selected Works*, 1950, English edition, vol. II, p. 23.)

Capitalist production is based on wage-labour. Wage-workers are free from the ties of serfdom. But they are deprived of the means of production and compelled under threat of starvation to sell their labour-power to the capitalists. The exploitation of the proletariat by the bourgeoisie is the main feature of capitalism, and the relationship between the

bourgeoisie and the proletariat is the fundamental class relationship of the capitalist system.

In countries where the capitalist mode of production prevails, alongside capitalist forms of economy more or less substantial survivals of pre-capitalist forms of economy have been preserved. "Pure capitalism" does not exist anywhere. Besides capitalist property there also exist in bourgeois countries the large-scale landed property of the landlords, together with the petty private property of simple commodity producers, peasants and craftsmen, who live by their own labour. Petty production plays a subordinate role under capitalism. The mass of petty commodity producers of town and country are exploited by the capitalists and landlords who own the factories and works, the banks, commercial institutions and the land.

The capitalist mode of production passes through two stages in its development: pre-monopoly and monopoly. The general economic laws of capitalism operate in both stages of its development. At the same time, monopoly capitalism is distinguished by a whole series of important special features, of which more later.

Let us now pass to examining the essential nature of capitalist exploitation.

Transformation of Money into Capital

Each unit of capital begins its career in the form of a certain sum of money. Money does not in itself constitute capital. When, for instance, independent petty commodity producers exchange their commodities, money plays its part as a circulation medium but does not serve as capital. The formula of commodity circulation is: *C* (commodity)—*M* (money)—*C* (commodity), i.e., the selling of one commodity in order to buy another. Money becomes capital when it is used to exploit the labour of others. The general formula of capital is *M*—*C*—*M*, i.e., buying in order to sell so as to make money.

The formula *C*—*M*—*C* means that one use-value is exchanged for another: a commodity producer hands over a commodity which he does not need and receives in exchange another commodity which he needs for use. The purpose of the circulation process is a use-value. In the formula *M*—*C*—*M*, on the contrary, the starting and finishing points of the

movement coincide: at the beginning of the process the capitalist had money and at the end of it he has money. The movement of capital would be pointless if at the end of the process the capitalist had the same amount of money as at the beginning. The whole sense of the capitalist's activity is that as the result of the operation he has more money than he had at the beginning. The purpose of the circulation process is an increase in value. Therefore the general formula of capital in its full form is: $M—C—M'$, with M' standing for an increased amount of money.

Capital advanced by a capitalist, i.e., put into circulation by him, returns to its owner with a certain increment.

What is the source of this growth of capital? Bourgeois economists, in their endeavour to hide the true source of money-making by the capitalists, often assert that this increment comes about in the process of commodity circulation. This assertion is unsound. Consider the facts. If commodities and money of equal value, i.e., equivalents, are exchanged, none of the commodity owners can derive from circulation any value greater than that which is embodied in his own commodity. If sellers succeed in selling their commodities above their value, by 10 per cent, say, when they become buyers they have to pay back this 10 per cent to the sellers. Thus, what the commodity owners gain as sellers they lose as buyers. Yet in actual fact increments to capital are secured by the whole class of capitalists. Evidently, the owner of money, in order to become a capitalist, must find on the market a commodity which when consumed creates its own value and something over besides, more than it possesses itself. In other words, the owner of money must find on the market a commodity the use-value of which possesses the property of being a source of value. This commodity is labour-power.

Labour-power as a Commodity. Value and Use-value of the Commodity Labour-power

Labour-power, as the aggregate of physical and mental qualities of which a person disposes and which he puts into action whenever he produces material wealth, is a necessary element of production in any form of society. Only under capitalism, however, does labour-power become a *commodity*.

Capitalism is commodity production at the highest stage of its development, when labour-power too becomes a commodity. With the transformation of labour-power into a commodity, commodity production takes on a *universal* character. Capitalist production is based on wage-labour, and the hiring of a worker by a capitalist is nothing else than the buying and selling of the commodity labour-power: the worker sells his labour-power and the capitalist buys it.

When he has hired a worker, a capitalist has the worker's labour-power at his free disposal. The capitalist uses this labour-power in the process of production; and that is where the increment to capital takes place.

Like every other commodity, labour-power is sold at a definite price, which is based upon its value. What is this value?

For the worker to retain his ability to work he must satisfy his need for food, clothing, footwear and housing. Satisfaction of these necessary vital requirements means restoring the vital energy—of muscles, nerves and brains—which the worker has expended and putting him once more in a fit state to work. Furthermore, capital needs a constant flow of labour-power; for this reason the worker must be able to maintain not only himself but also his family. In this way the reproduction, i.e., the continuous renewal, of labour-power is ensured. Finally, capital needs not only unskilled but also skilled workers, able to handle complex machinery, while the acquisition of skill involves a certain outlay of labour on training. For this reason the expenses of producing and reproducing labour-power also include a definite minimum of expenditure on the training of the rising generations of the working class.

It follows from the above that the *value of labour-power as a commodity* is equal to the value of the means of existence which are necessary for the maintenance of the worker and his family. "The value of labour-power is determined as in the case of every other commodity, by the labour-time necessary for the production, and consequently, also the reproduction of this special article." (Marx, *Capital*, Kerr edition, vol. I, p. 189.)

In the course of the historical development of society both the level of worker's customary requirements and also the means needed to satisfy these requirements have undergone changes. The level of a worker's customary requirements varies

from country to country. The special features of the historical path followed by a given country and the conditions in which the class of wage-workers was formed have much to do with determining the nature of these requirements. Climatic and other natural conditions also have a certain bearing on the workers' requirements in respect of food, clothing and shelter. The value of labour-power includes not only the value of the consumer goods needed to restore the physical strength of the worker but also the cost of satisfying certain cultural requirements of himself and his family, engendered by the very conditions of society in which the workers live and are brought up (education of children, purchase of newspapers and books, visits to the cinema and the theatre, etc.). The capitalists try, all the time and everywhere, to reduce the material and cultural conditions of the working class to the lowest possible level.

When he begins in business, a capitalist buys everything that he needs for production: buildings, machinery, equipment, raw materials, fuel. Then he engages workers, and the production-process commences in the enterprise which he owns. When the commodity is ready, the capitalist sells it. The value of the finished commodity comprises: first, the value of the means of production expended (the raw material worked up, the fuel used, a certain part of the value of the buildings, machinery and tools); second, the new value created by the workers in the enterprise itself.

What does this new value consist of?

The capitalist mode of production presupposes a comparatively high level of productivity of labour, under which the worker needs only part of the working day to create value equal to the value of his labour-power. Let us suppose that one hour of simple average labour creates value equivalent to one dollar and the daily value of labour-power is equivalent to six dollars. In this case the worker, so as to pay for the daily value of his labour-power, would have to work six hours. But the capitalist has bought his labour-power for the whole day, and he compels the worker to work not six hours but for an entire working day, lasting, say, twelve hours. During these twelve hours the worker creates value equivalent to twelve dollars, even though the value of his labour-power is equivalent only to six dollars.

We now see what the specific use-value of the commodity labour-power consists of for the person who buys it—the

capitalist. *The use-value of the commodity labour-power* is its capacity to be the source of value, and withal, of more than it possesses itself.

The Production of Surplus-Value—Basic Economic Law of Capitalism

The value of labour-power and the value which is created in the process of using it are, in fact, two quite distinct magnitudes. The difference which exists between these magnitudes is the necessary prerequisite for capitalist exploitation.

In our example, the capitalist, who has spent 6 dollars on hiring workers, obtains value created by their labour which is equivalent to 12 dollars. The capitalist recovers the capital which he originally advanced plus an increment or surplus equivalent to 6 dollars. It is this increment that constitutes surplus-value.

Surplus-value is the value created by the labour of a wage-worker over and above the value of his labour-power and appropriated by the capitalist without payment. Thus, surplus labour is the result of the worker's unpaid labour.

The working day in a capitalist enterprise is divided into two parts: necessary labour-time and surplus labour-time, and the labour of the wage-worker into necessary and surplus labour. During the necessary labour-time the worker reproduces the value of his labour-power, and during the surplus labour-time he creates surplus-value.

A worker's labour, under capitalism, is a process of use by the capitalist of the commodity labour-power, or a process of extraction of surplus-value from the worker by the capitalist. The labour-process is characterised, under capitalism, by two fundamental peculiarities. First, the worker works under the control of the capitalist to whom the worker's labour belongs. Second, not only does the worker's labour belong to the capitalist but also the product of this labour. These peculiarities of the labour-process transform the wage-worker's labour into a heavy and hateful burden.

The immediate aim of capitalist production is the production of surplus-value. In accordance with this, productive labour means under capitalism only such labour as creates surplus-value. If the worker does not create surplus-value, his work is unproductive work, useless for capital.

In contrast to the previous forms of exploitation—slave-owning and feudal—capitalist exploitation is masked. When the wage-worker sells his labour-power to the capitalist, this transaction appears at first sight to be an ordinary transaction between commodity owners, the usual exchange of a commodity against money, carried out in accord with the law of value. The transaction of buying and selling labour-power, however, is merely the outward form behind which is hidden the exploitation of the worker by the capitalist, the appropriation by the capitalist, without any equivalent, of the worker's unpaid labour.

In order to clarify the essential nature of capitalist exploitation we will suppose that the capitalist, when he engages the worker, pays him the full value of his labour-power, determined by the law of value. It will be shown later when we examine wages that, unlike the prices of other commodities, the price of labour-power, as a rule, diverges *below* its value. This circumstance still further increases the exploitation of the working class by the capitalist class.

Capitalism enables the wage-worker to work, and consequently to live, only in so far as for a certain amount of his time he works gratis for the capitalist. If he leaves one capitalist enterprise, the most favourable thing that can happen to the worker will be to find himself in another capitalist enterprise, where he will be subjected to the same exploitation. When he exposed the system of wage-labour as a system of wage-slavery, Marx pointed out that whereas the Roman slave was bound by chains, the wage-worker was bound by invisible threads to his owner. This owner is the capitalist class as a whole.

Surplus-value, created by the unpaid labour of wage-workers, constitutes the common source of the unearned incomes of the various groups of the bourgeois class: industrialists, traders and bankers—and also the class of landowners.

Production of surplus-value is *the basic economic law of capitalism.* Analysing capitalism, Marx wrote: "Production of surplus-value is the absolute law of this mode of production." (Marx, *Capital*, Kerr edition, vol. I, p. 678.)

The essential features of this law consist in the production of surplus-value on an ever-increasing scale and the appropriation of it by the capitalists on the basis of bourgeois ownership of the means of production by means of increasing exploitation of wage-labour and the extension of production.

Capital did not invent surplus labour. Wherever society consists of exploiters and exploited, the ruling class pumps surplus labour out of the exploited classes. But unlike the slave-owner and the feudalist, who in conditions where natural economy prevailed used the greater part of the product of the surplus labour of the slaves and serf-peasants for the direct satisfaction of their needs and whims, the capitalist transforms the whole of what his wage-workers produce into money. Part of this money the capitalist spends on buying consumer goods and luxury articles, the rest he invests again, as additional capital, to bring him in further surplus-value. This is why capital displays, in Marx's words, truly wolf-like greed for surplus labour.

The pursuit of surplus-value is the principal driving-force of the development of the productive forces under capitalism. None of the previous forms of society based on exploitation, neither slavery nor feudalism, possessed such a force, hastening forward the growth of technique.

Lenin called the doctrine of surplus-value the corner-stone of Marx's economic theory. By disclosing in his doctrine of surplus-value the essence of capitalist exploitation, Marx dealt a mortal blow to bourgeois political economy and its talk about the harmony of interests under capitalism, and gave the working class a spiritual weapon for overthrowing capitalism.

Capital as a Social Relation of Production. Constant and Variable Capital

Bourgeois economists call "capital" every instrument of labour and every means of production, beginning with the stones and sticks of primitive man. This definition of capital has the aim of concealing the essence of capitalist exploitation of the worker and of showing capital as some sort of eternal and unchanging condition for the existence of any human society.

In fact, the stones and sticks of primitive man served him as instruments of labour but were not capital. Neither are the tools and raw material of the handicraftsman capital, nor the implements, seed and draught animals of the peasant who works his holding with his own labour. Means of production become capital only at a certain level of historical development, when they are the private property of a capitalist and serve as

means of exploiting wage-labour. With the liquidation of the capitalist system the means of production pass into social ownership and cease to be capital. Thus, capital is not a thing but a social relationship of production which is historically transient in character.

Capital is value which, through the exploitation of wage-labour, brings in surplus-value. In Marx's words, capital is "dead labour, that vampire-like, only lives by sucking living labour, and lives the more, the more labour it sucks." (Marx, *Capital*, Kerr edition, vol. I, p. 257.) Embodied in capital is the production-relationship between the class of capitalists and the working class, consisting in the fact that the capitalists as owners of the means and conditions of production exploit wage-workers who create surplus-value for them. This production-relationship, like all the other production-relations of capitalist society, takes the form of a relationship between things, and appears as if it were a property of things themselves—the means of production—to bring in an income for the capitalist.

This is what constitutes the *fetishism of capital*. Under the capitalist mode of production a deceptive appearance is created, as though the means of production (or a particular sum of money for which means of production can be bought), possess by themselves the miraculous property of providing their owner with a regular unearned income.

Different parts of capital play different roles in the process of producing surplus-value.

The entrepreneur spends a certain part of his capital on erecting a factory building, on purchasing equipment and machinery, on buying raw materials, fuel and auxiliary supplies. The value of this part of capital is transferred into the newly-produced commodity in proportion as the means of production are used up or worn out in the labour process. The part of capital which exists in the form of value of the means of production does not change its magnitude during the process of production, and is therefore called *constant* capital.

Another part of his capital is spent by the entrepreneur on the purchase of labour-power—on hiring workers. In return for this part of the capital which he lays out the entrepreneur receives at the end of the production process a new value which has been produced by the workers in his enterprise. This new value, as we have seen, is greater than the value of the

labour-power bought by the capitalist. Thus that part of the capital which is spent on the hiring workers changes its magnitude in the production process: it grows as a result of the creation by the workers of surplus-value which is appropriated by the capitalist. The part of capital which is spent on the purchase of labour-power (i.e., on hiring workers) and grows in the process of production, is called *variable* capital.

Marx used the Latin letter "*c*" to signify constant capital and "*v*" to signify variable capital. It was Marx who first divided capital into its constant and variable parts. Through this division the special role played by variable capital employed in the purchase of labour-power was revealed. The exploitation of wage-workers by capitalists is the real source of surplus-value.

The discovery of the two-fold character of the labour embodied in a commodity provided Marx with the key for establishing the difference between constant and variable capital and exposing the essential nature of capitalist exploitation. Marx showed that the worker by his labour simultaneously creates new value and transfers the value of the means of production into the manufactured commodity. As a definite kind of concrete labour, the worker's labour transfers the value of the used-up means of production into his product; while as abstract labour, as expenditure of labour-power in general, the same worker's labour creates new value. These two aspects of the labour-process are distinguished quite tangibly. For example, when the productivity of labour in a particular branch of industry is doubled, a spinner transfers to his product during the course of a working day twice as much of the value of the means of production (because he works up a quantity of cotton twice as large), but he creates only the same amount of new value as before.

The Rate of Surplus-Value

The degree of exploitation of the worker by the capitalist is expressed in the rate of surplus-value.

The rate of surplus-value is the term used for the relation between the surplus-value and the variable capital, expressed as a percentage. The rate of surplus-value shows the proportions in which the labour expended by the worker is divided into necessary and surplus labour, or in other words, what part of the proletarian's working day is spent in replacing the value of his labour-power and what part of it he spends working gratis for the capitalist. Marx used the Latin letter "s" to

stand for surplus-value and $\frac{\text{"s"}}{v}$ to stand for the rate of surplus-value. In the case quoted above the rate of surplus-value, expressed as a percentage, would be:

$$\frac{s}{v} = \frac{6 \text{ dollars}}{6 \text{ dollars}} \times 100 = 100 \text{ per cent.}$$

The rate of surplus-value is in this case 100 per cent. What this means is that in the given case the worker's labour is divided equally into necessary and surplus labour. As capitalism develops, the rate of surplus-value grows, expressing the increase in the degree of exploitation of the proletariat by the bourgeoisie. Still more rapidly grows the *mass* of surplus-value, as the number of wage-workers exploited by capital increases.

In his article "Workers' Earnings and Capitalists' Profits in Russia", written in 1912, Lenin set out the following calculations, showing the degree to which the proletariat was exploited in pre-revolutionary Russia. According to the findings of an official investigation of factories and works carried out in 1908 and tending, undoubtedly, to overestimate the figures for the size of workers' earnings and underestimate those for the size of capitalist's profits, the workers' wages amounted to 555·7 million roubles, while the capitalists' profit totalled 568·7 million roubles. The total number of workers employed in the enterprises of large-scale factory industry which were investigated was 2,254,000. Thus, a worker's average wage was 246 roubles a year, while each worker provided the capitalists, on an average, with 252 roubles of profit annually.

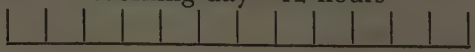
Thus, in Tsarist Russia the worker spent less than half of his day working for himself and more than half working for the capitalist.

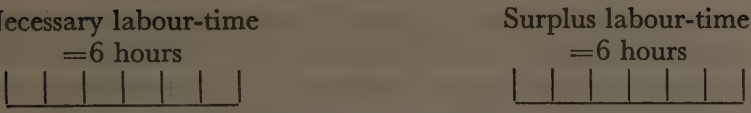
Two Ways of Increasing the Degree of Exploitation of Labour by Capital. Absolute and Relative Surplus-Value

Each capitalist tries his utmost, with the aim of increasing surplus-value, to increase the share of surplus labour extracted from the worker. The increasing of surplus-value is effected in two main ways.

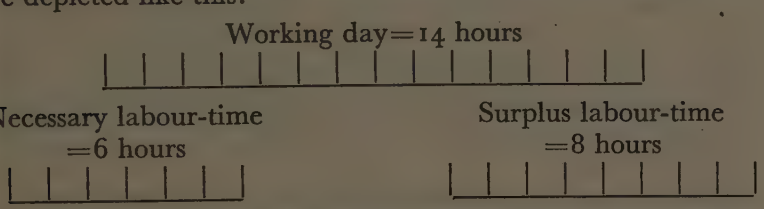
Let us take for example a working day of 12 hours, of which 6 hours are necessary and 6 are surplus labour. Let us show this working day as a line on which each division is equivalent to 1 hour.

Working day = 12 hours



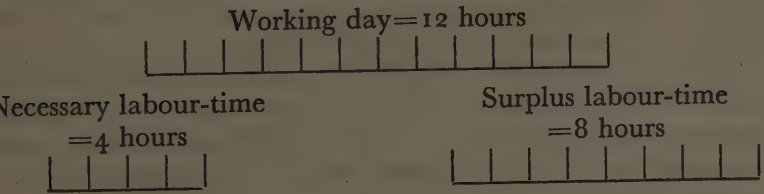


The first method of increasing the degree to which the worker is exploited is for the capitalist to increase the surplus-value which he obtains by increasing the length of the whole working day, say, by 2 hours. In this case the working day can be depicted like this:



The magnitude of the surplus labour-time has grown as a result of the *absolute* lengthening of the working day as a whole, while the necessary labour-time has remained the same. Surplus-value produced by lengthening the working-day is called *absolute surplus-value.*

The second method of increasing the degree of exploitation of the workers consists in arranging, while the overall length of the working day remains unchanged, for the surplus-value received by the capitalist to increase thanks to a reduction in the necessary labour-time. The growth of the productivity of labour in the branches of industry which manufacture goods consumed by the workers, and also in those supplying implements and material for the production of these consumer goods, leads to a reduction in the labour-time needed for their production. Consequently, the value of the workers' means of subsistence decreases, and in accordance with this the value of labour-power declines. Where formerly 6 hours had to be expended to produce a worker's means of subsistence, now this demands, say, only 4 hours. In a case like this the working day may be depicted in the following manner:



The length of the working day has not been altered, but the amount of surplus labour-time has grown as a result of the changed *proportion* between necessary and surplus labour-time. Surplus-value which arises from a reduction in necessary labour-time and corresponding increase in surplus labour-time as a result of an increase in the productivity of labour is called *relative surplus-value*.

Both ways of increasing surplus-value lead to intensifying the exploitation of wage labour by capital; but they play a different part at different stages of the historical development of capitalism. In the first stages of the development of capitalism, when technique was at a low level and progressed relatively slowly, the most important method was the increase in absolute surplus-value.

In its hunt for surplus-value capital effected a radical revolution in former methods of production, the Industrial Revolution, which gave rise to large-scale machine industry. Capitalist simple co-operation, manufacture and machine industry, discussed above, in Chapters V and VI, were successive stages in the increase in the productivity of labour by capital. In the machine period, when rapidly developing technique made it possible to raise the productivity of labour in a short time, the capitalists brought about a tremendous intensification in the degree of exploitation of the workers first and foremost by effecting an increase in relative surplus labour. At the same time they continued as before to strive for a lengthening of the working day and especially to enhance the intensity of labour. Intensifying the workers' labour means for the capitalist the same as lengthening the working day: lengthening the working day from 10 to 11 hours or heightening the intensity of labour by one-tenth gives him the same result in either case.

Extra Surplus-Value

An important role in the development of capitalism is played by the pursuit of extra surplus-value. It is obtained when individual capitalists introduce machines and production methods in their works which are more advanced than those used in the majority of enterprises in the same branch. In this way the individual capitalist achieves in his enterprise a higher productivity of labour compared with the average level which

prevails in the relevant branch of production. As a result, the individual value of a commodity produced in this capitalist's enterprise is lower than the social value of this commodity. As the price of a commodity is determined by its social value, however, the capitalist obtains a higher rate of surplus-value compared with the usual rate.

Let us take the following example. Let us suppose that a worker in a tobacco factory produces 1,000 cigarettes an hour and works twelve hours, during six of which he is creating value equivalent to the value of his own labour-power. If a machine is introduced in this factory which doubles the productivity of labour, this worker, working twelve hours as before, produces not 12,000 but 24,000 cigarettes. Part of the newly-created value, embodied (allowing for the value of the transferred part of the constant capital) in six thousand cigarettes i.e., the product of three hours, reimburses the factory-owner for the worker's wages. The rest of the newly-created value, embodied (allowing for the value of the transferred part of the constant capital) in 18,000 cigarettes, i.e., the product of nine hours, remains with the factory-owner.

Thus, a reduction in the necessary labour-time takes place, with a corresponding lengthening of the surplus labour-time. The worker needs not even six hours but only three hours to replace the value of his own labour-power; his surplus labour has increased from six hours to nine. The rate of surplus-value has trebled.

Extra surplus-value is an excess of surplus-value above the usual rate, obtained by individual capitalists as a result of a decrease in the individual values of commodities produced in their enterprises.

The obtaining of extra surplus-value is only a temporary phenomenon for any particular enterprise. Sooner or later the majority of entrepreneurs in the same branch will introduce the new machinery, and whoever does not possess sufficient capital to do this will be ruined in the process of competition. As a result, the time socially-necessary for the production of the given commodity will be shortened and the value of the commodity reduced; and the capitalist who introduced the technical improvements earlier than the rest will cease to obtain extra surplus-value. Disappearing from one enterprise, however, extra surplus-value appears in another, where new and still more advanced machinery is being introduced.

Each capitalist aims only at his own enrichment. But the ultimate result of the separate actions of the individual entrepreneurs is the growth of technique, the development of

the productive forces of capitalist society. At the same time the pursuit of surplus-value causes each capitalist to keep his technical achievements from his competitors, gives rise to trade secrets and technological hush-hush. Thus it becomes evident that capitalism sets definite limits to the development of productive forces.

The development of the productive forces under capitalism takes place in contradictory fashion. The capitalists introduce new machinery only when it will lead to an increase in surplus-value. The introduction of new machinery serves as the basis for an all-round increase in the degree of exploitation of the proletariat, lengthening of the working day and growth in the intensity of labour; the progress of technique takes place at the cost of numberless sacrifices and deprivations on the part of many generations of the working class. Thus, capitalism deals in most predatory fashion with the main productive force of society, the working class, the toiling masses.

The Working Day and its Limits. The Struggle to Shorten the Working Day

In their drive to raise the rate of surplus-value the capitalists try to lengthen the working day to its maximum length. *The working day* means that period of a given 24 hours during which the worker is at the enterprise and at the disposal of the capitalist. Were it possible, the employer would compel his workers to work 24 hours a day. A man needs, however, to spend a certain part of each day and night recovering his strength, resting, sleeping and eating. These needs determine the purely *physical limits* of the working day. Besides these, the working day also has *moral limits*, for the worker needs time to satisfy his cultural and social requirements.

Capital, in its insatiable greed for surplus labour, does not want to reckon with even the purely physical limits to the working day, let alone the moral ones. As Marx puts it, capital is ruthless towards the life and health of the worker. The rapacious exploitation of labour-power shortens the proletarian's life-span and leads to an exceptional increase in the mortality rate among the working population.

In the period of the rise of capitalism the State power promulgated special laws in the interests of the bourgeoisie, for the

purpose of compelling the wage-workers to work the maximum possible number of hours. In those days technique was still at a low level and the masses of peasants and craftsmen were still able to work independently, in consequence of which capital did not have a surplus of workers at its disposal. The situation changed with the spread of machine production and the growth of the proletarian population. Sufficient workers became available to capital, and they were obliged by the threat of starvation to accept enslavement to the capitalists. The need for State laws lengthening the working day declined. Capital became able to lengthen the working day to its utmost extent by means of economic compulsion. Under these conditions the working class began a stubborn struggle to shorten the working day. This struggle developed earliest in Britain.

As a result of a long struggle the British workers secured the passing in 1833 of a factory Act which restricted the labour of children under thirteen to eight hours and that of adolescents between thirteen and eighteen to twelve hours. In 1844 a law was passed restricting women's hours of work to twelve and those of children to six and a half. In the majority of cases child labour and female labour were employed alongside that of men. For this reason a working day of twelve hours for all workers became general in enterprises affected by the factory legislation. By a law of 1847 the labour of adolescents and women was restricted to ten hours. A law of 1901 restricted working hours for adults to twelve in the first five days of the week and five and a half on Saturdays.

In proportion as the resistance of the workers grew, laws restricting the working day began to appear in other capitalist countries as well. After the passing of each law of this kind, the workers had to wage an unremitting struggle to ensure that it was implemented in practice.

A particularly stubborn struggle for legislative restriction of labour-time developed after the working class put forward as its battle-slogan the demand for an *eight-hour working day*. This demand was proclaimed in 1866 by the Labour Congress in America and the Congress of the First International, at Marx's suggestion. The struggle for the eight-hour working day became an integral part not only of the economic but also of the political struggle of the proletariat.

In Tsarist Russia the first factory Acts were promulgated at the end of the nineteenth century. After the famous strikes

waged by the Petersburg proletariat, the law of 1897 restricted the working day to 11½ hours. This law was, in Lenin's words, a forced concession, won from the Tsarist government by the Russian workers.

On the eve of the first world war a working day of 10 hours prevailed in the majority of developed capitalist countries. In 1919, influenced by the bourgeoisie's alarm at the growth of the revolutionary movement, the representatives of a number of capitalist countries, meeting at Washington, concluded a convention for introducing an 8-hour day internationally. Later, however, all the big capitalist States refused to ratify this convention. Nevertheless, in many capitalist countries the 8-hour working day was introduced, under the pressure of the working class. But the employers made up for the reduction in the working day by acutely increasing the intensity of labour. In a number of capitalist countries, together with an exhausting intensity of labour, a long working day prevails, especially in industries producing armaments. An excessively long working day is the lot of the proletariat in the colonial and dependent countries.

Class Structure of Capitalist Society. The Bourgeois State

Characteristic of the slave-owning and feudal modes of production was the splitting-up of society into various classes and estates, forming a complex hierarchical social structure. The bourgeois epoch simplified class contradictions and replaced the diverse forms of hereditary privilege and personal dependence by the impersonal power of money, the unrestricted despotism of capital. Under the capitalist mode of production, society splits up more and more into two great antagonistic camps, into two opposed classes, the bourgeoisie and the proletariat.

The *bourgeoisie* is the class which possesses the means of production and uses them to exploit wage-labour. The bourgeoisie is the ruling class in capitalist society.

The *proletariat* is the class of wage-workers, deprived of means of production and therefore obliged to sell its labour-power to the capitalists. Machine production enables capital to subject wage-labour to itself completely. Proletarian status becomes the lifelong lot of the class of wage-workers. By force of its economic situation the proletariat is the most revolutionary class.

The bourgeoisie and the proletariat are the basic classes of capitalist society. So long as the capitalist mode of production exists, these two classes are inseparably linked together: the bourgeoisie cannot exist and become rich without exploiting the wage-workers; the latter cannot live unless they are hired by the capitalists. At the same time the bourgeoisie and the proletariat are mutually antagonistic classes, whose interests are opposed and irreconcilably hostile to each other. The development of capitalism leads to a deepening of the gulf between the exploiting minority and the exploited masses. Besides the bourgeoisie and the proletariat there exist also under the capitalist system the classes of landlords and peasants. These classes have survived from the previous, feudal system, but have to a considerable extent changed their nature in accordance with capitalist conditions.

Landlords are, under capitalism, a class of large landowners who usually lease land to capitalist tenants or small producers —peasants; or else conduct large-scale capitalist production, using wage-labour, on the land belonging to them.

The *peasantry* is the class of small producers who conduct their enterprises on the basis of private ownership of the means of production and by means of backward technique and hand labour. In bourgeois countries the peasantry forms an important part of the population. The main mass of the peasantry are mercilessly exploited by the landlords, kulaks, merchants and usurers, and go down into ruin. As the process of differentiation takes effect, there are continually becoming separated off from the peasantry, on one side a mass of proletarians and on the other kulaks or capitalists.

The bourgeois State, which arose in succession to the feudal State as a result of the bourgeois revolution, is a tool in the hands of the capitalists for subjecting and oppressing the working class and the peasantry. The bourgeois State protects capitalist private property in the means of production, guarantees the exploitation of the working people and puts down their struggle against the capitalist system.

Since the interests of the capitalist class are sharply opposed to those of the overwhelming majority of the population, the bourgeoisie is obliged to conceal in every possible way the class nature of its State. The bourgeoisie tries to present this State in the guise of something above classes, existing for the

benefit of the whole people, as a State of "pure democracy". But in fact bourgeois "freedom" is freedom for capital to exploit the labour of others; bourgeois "equality" is an outward show hiding the inequality which exists in fact between the exploiter and the exploited, the satiated and the hungry, between the owners of the means of production and the mass of proletarians who possess only their own labour-power.

The bourgeois State holds down the masses of the people by means of its administrative apparatus, police, army, courts, prisons, concentration camps and other means of coercion. As a necessary supplement to these means of coercion, means of ideological influence exist, through which the bourgeoisie maintains its domination. To this category belong the bourgeois press, the wireless, the cinema, bourgeois science and art, and the Church.

The bourgeois State is the executive committee of the capitalist class. Bourgeois constitutions have for their aim to consolidate social systems which are acceptable and profitable to the possessing classes. The basis of the capitalist system, private ownership of the means of production, is proclaimed sacred and inviolable by the bourgeois State.

The forms assumed by bourgeois States are extremely varied, but the essence of them all is the same: all these States are *dictatorships of the bourgeoisie*, and try by all possible methods to protect and strengthen the system of exploitation of wage-labour by capital.

As large-scale capitalist production grows, the numbers of the proletariat increase and it becomes more and more aware of its class interests, develops politically and organises for struggle against the bourgeoisie.

The proletariat is that class of working people which is linked with the advanced form of economy, large-scale production. "Only the proletariat—by virtue of the economic role it plays in large-scale production—is capable of being the leader *of all* the toiling and exploited masses." (Lenin, "State and Revolution", *Selected Works*, 1951, English edition, vol. II, Pt. 1, p. 224.) The industrial proletariat is the most revolutionary, most advanced class of capitalist society, called upon to unite around it the working masses of the peasantry and all the exploited strata of the population and to lead them in the attack upon capitalism.

BRIEF CONCLUSIONS

(1) Under the capitalist system the basis of production-relations is capitalist ownership of the means of production, which is used for exploiting wage-workers. Capitalism is commodity production at its highest level of development, when labour-power also becomes a commodity. Being a commodity, labour-power under capitalism has value and use-value. The value of the commodity labour-power is determined by the value of the means of subsistence necessary for the maintenance of the worker and his family. The use-value of the commodity labour-power consists in its property of being the source of value and surplus-value.

(2) Surplus-value is the value created by the labour of the worker in excess of the value of his labour-power and is appropriated by the capitalist without compensation. The production of surplus-value is the basic economic law of capitalism.

(3) Capital is value which brings in surplus-value by exploiting wage-workers. Capital embodies the social relationship between the capitalist class and the working class. The different parts of capital play different roles in the process of producing surplus-value. Constant capital is that part of capital which is spent on means of production; this part of capital does not create new value and does not change its magnitude. Variable capital is that part of capital which is spent on the purchase of labour-power; this part of capital grows as a result of the creation by the workers of surplus-value which is appropriated by the capitalists.

(4) The rate of surplus-value is the proportion of surplus-value to variable capital. It expresses the degree of exploitation of the worker by the capitalist. The capitalists raise the rate of surplus-value by two methods—by the production of absolute surplus-value and by the production of relative surplus-value. Absolute surplus-value is surplus-value created by means of lengthening the working day or raising the intensity of labour. Relative surplus-value is surplus-value created by means of shortening necessary labour-time and correspondingly increasing surplus labour-time.

(4) The class interests of the bourgeoisie and the proletariat are irreconcilable. The contradiction between the bourgeoisie

and the proletariat is the main class contradiction of capitalist society. The bourgeois State is the dictatorship of the bourgeoisie which functions as an organ for the protection of the capitalist system and for holding down the working and exploited majority of society.

CHAPTER VIII

WAGES

The Price of Labour-power. Essential Nature of Wages

Under the capitalist mode of production, labour-power, like every other commodity, has value. The value of labour-power, expressed in money, is the *price of labour-power.*

The price of labour-power is unlike the price of other commodities. When a commodity producer sells cloth, say, in the market, the sum of money which he receives is simply the price of the commodity which he has sold. When a proletarian sells his labour-power to a capitalist and obtains a certain sum of money in the form of wages, that sum of money appears not as the price of the commodity labour-power but as the *price of labour.*

This comes about for the following reasons. First, the capitalist pays the worker his wages after the worker has expended his labour. Second, wages are fixed either in accordance with the amount of time worked (in hours, days, weeks) or in accordance with the quantity of product produced. Let us take our previous example. Let us suppose that the worker works 12 hours a day. During 6 hours he produces the value of 6 dollars, equal to the value of his labour-power. In the remaining 6 hours he produces the value of 6 dollars, which is appropriated by the capitalist as surplus-value. As the employer has hired the proletarian for a full working day, he pays him 6 dollars for the whole 12 hours of his labour. Thus a false impression is created, as though wages were the price of labour and 6 dollars were full payment for the whole of the 12-hour working day. In fact, the 6 dollars are only the value of one day's labour-power, whereas the proletarian's labour has created value equal to 12 dollars. If wages at the given enterprise are worked out in relation to the product turned out, it looks as though the worker is paid for the labour expended in every unit of the commodity he has made, i.e., as above, that the whole of the labour expended by the worker has been fully paid for.

This deceptive appearance is not an accidental delusion. It arises from the very conditions of capitalist production, under

which exploitation is concealed, slurred over and the relations between the employer and the wage-worker appear in distorted form as relations between equal commodity producers.

In reality the wages of the wage-worker are not the value or price of his labour. If we suppose that labour is itself a commodity and has value, then the magnitude of this value must be measured by some means. Evidently, the magnitude of "the value of labour", as of any other commodity, must be measured by the amount of labour contained in it. Such a supposition creates a vicious circle: labour is measured by labour.

Further, if a capitalist were to pay a worker "the value of his labour", i.e., were to pay for his labour to the full extent, there would then be no source for the capitalist's wealth, i.e., no surplus-value, or, in other words, the capitalist mode of production could not exist.

Labour is the creator of the value of commodities, but labour is not itself a commodity and has no value. What in everyday life is called "the value of labour" is in reality the value of labour-power.

The capitalist buys on the market not labour but a special commodity—labour-power. The use of labour-power, i.e., the expenditure of the energy of the worker's muscles, nerves and brain, is the process of labour. The value of labour-power is always less than the value newly created by the worker's labour. Wages are the payment for only *part* of the working day, namely, for necessary labour-time. But in so far as wages take the form of payment for labour the impression is created that the whole of the working day is fully paid for. For this reason Marx calls wages in bourgeois society the *transmuted form* of the value or price of labour-power.

> "Wages are not what they *appear* to be, namely the *value*, or *price*, of *labour*, but only a masked form for the *value*, or *price*, of *labour-power*." (Marx, "Critique of the Gotha Programme," Marx and Engels, *Selected Works*, 1950, English edition, vol. II, p. 27.)

Wages are the monetary expression of the value of labour-power, its price, outwardly appearing as the price of labour.

Under slavery no buying and selling of labour-power takes place between slave-owner and slave. The slave is the property of the slave-owner. It therefore seems as though the whole of the slave's

labour is given for nothing, that even that part of his labour which replaces what has been spent on his upkeep is unpaid labour, labour for the slave-owner. In feudal society the necessary labour of the peasant on his own holding and his surplus labour on the landlord's demesne are distinctly separated in time and space. Under the capitalist system even the unpaid labour of the wage-worker appears to be paid for.

Wages conceal all traces of the division of the working day into necessary and surplus labour-time, into paid and unpaid labour, and so cover up the relation of capitalist exploitation.

Basic Forms of Wages

The basic forms of wages are: (1) time wages and (2) piece wages (payment by the job).

Time wages are that form of wages under which the magnitude of a worker's wages depends on the time which he works—in hours, days, weeks or months. In accordance with these units of time we distinguish payment by the hour, by the day, by the week, by the month.

With one and the same magnitude of time wages, the actual earnings of a worker can differ, depending on the length of the working day. The price of one working hour serves as the measure of payment to the worker for the labour expended by him in a unit of time. Although, as has been shown, labour itself has no value, nor, consequently, any price, the conventional name "price of labour" is used to define the size of a worker's earnings. The unit of measurement of the "price of labour" is provided by the payment for the labour of one working hour, or the price of one hour's work. Thus, if the average working day lasts 12 hours, and the average per-day value of labour-power is equivalent to 6 dollars, then the average price of a working hour (600 cents ÷ 12) will be 50 cents.

Time wages enable the capitalist to intensify the exploitation of the worker by way of lengthening the working day—to lower the price of a working hour, while leaving the wages per day, week or month unchanged. Let us suppose that the daily rate of payment remains as before, 6 dollars, but the working day is increased from 12 to 13 hours. In such a case the price of 1 working hour (600 cents ÷ 13) will be reduced from 50 to 46 cents. Under pressure of the workers' demands the capitalist is sometimes obliged to raise the daily (and, accordingly, the

weekly and monthly) rate of wages, but the price of 1 working hour may nevertheless remain unchanged or even decline. Thus, if the daily wage is raised from 6 dollars to 6 dollars 20 cents, while the working day is increased from 12 to 14 hours, the price of a working hour is thereby reduced (620 cents ÷ 14) to 44 cents.

The growth in the intensity of labour means in practice also a fall in the price of a working hour, since the payment remains the same for a greater output of energy, equivalent to a lengthening of the working day. As a result of the fall in the price of a working hour the proletariat, in order to exist, is obliged to agree to a further lengthening of the working day. Both the lengthening of the working day and the unbounded intensification of labour lead to increased expenditure of labour-power and to its being undermined. The lower the payment for each hour, the greater the amount of labour or the longer the working day that is needed for the worker to secure even a low wage. From another aspect, the lengthening of the working period brings in its turn a lowering of the payment for a working hour.

The capitalist makes use in his own interests of the circumstance that, with a lengthening of the working day or an increase in the intensity of labour, the payment for 1 hour of labour is reduced. When conditions are favourable for the sale of commodities, he lengthens the working day, introduces *overtime*, i.e., work beyond the established duration of the working day. If market conditions are unfavourable and the capitalist is forced temporarily to reduce the extent of his production, he reduces the working day and introduces *hourly* rates of payment. Hourly rates, when the working day or working week are incomplete, sharply reduce earnings. If, in our example, the working day be shortened from 12 to 6 hours while the rate of payment for labour remains, as before, 50 cents per hour, then the daily earnings for a worker amount in all to 3 dollars, i.e., they will be half the daily value of his labour-power. Thus, the worker loses in earnings not only when the working day is lengthened beyond the usual duration but also when he is obliged to work short time.

> "The capitalist can now wring from the labourer a certain quantity of surplus labour without allowing him the labour-time necessary for his own subsistence. He can annihilate all

regularity of employment and, according to his own convenience, caprice and the interest of the moment make the most enormous overwork alternate with relative or absolute cessation of work." (Marx, *Capital*, Kerr edition, vol. I, p. 597.)

With time wages the size of the worker's earnings bear no direct relation to the degree of intensity of his labour: if the intensity of labour is increased, time wages are not raised, and in fact the price of a working hour falls. So as to intensify exploitation the capitalist employs special overlookers who see that the workers obey capitalist labour discipline and intensify this discipline still further.

Time wages were widespread in the early stages of the development of capitalism, when the employer, meeting as yet little organised resistance from the workers, was in a position to increase surplus-value by lengthening the working day. Time wages have been retained, however, even in the highest phase of capitalism. In a number of cases they offer several advantages to the capitalist: through speeding up the movement of the machinery the capitalist obliges the workers to work still more intensively, without increasing their wages.

Piece wages (*payment by results*) is that form of wages under which the size of the worker's earnings depends on the quantity of articles or separate parts which he produces, or the number of operations he completes, in a given unit of time. Under time wages payment for labour expended varies with its length, under piece wages it varies with the amount of articles produced or operations completed, each of which is paid for at a definite *rate*.

In fixing the rate, the capitalist takes into account, first, the time wages of the worker per day and, second, the amount of articles or parts which the worker produces in the course of a day; usually he fixes the production quota at the highest level attained by a worker. If the average daily wage in the given branch of production under time wages amounts to 6 dollars, and the quantity of articles of a particular kind produced by a worker is 60, then the piece-rate for an article or part will be 10 cents. In fixing the piece-rate the capitalist strive that the hourly (daily, weekly) earnings of a worker should not be higher than under time wages. Thus, piece wages are fundamentally a modified form of time wages.

Piece wages, even more than time wages, give rise to the

deceptive appearance that the worker is selling the capitalist not labour-power but labour, and is receiving full payment for his labour in accordance with the amount he produces.

Capitalist piece-wage systems lead to continually greater intensification of labour. In addition they help the entrepreneur in the matter of supervision of the workers. The degree of intensity of labour is here controlled by the quantity and quality of the product which the worker must make in order to obtain the means of subsistence which he needs. The worker is compelled to increase his output by working more intensively. But as soon as a more or less considerable section of the workers achieve the new, heightened level of intensity of labour, the capitalist lowers the piece-rates. If, in our example, the piece-rate is halved, say, the worker is obliged, in order to keep his earnings at their former level, to work twice as hard, i.e., either to work longer hours or to work at still greater intensity, so that in one day he can produce not 60 but 120 parts. "The worker tries to keep up the amount of his wages by working more, whether by working longer hours or by producing more in one hour. . . . The result is that *the more he works, the less wages he receives.*" (Marx, "Wage Labour and Capital", Marx and Engels, *Selected Works*, 1950, English edition, vol. 1, p. 95.) This is the most important peculiarity of piece wages under capitalism.

Time and piece forms of wages are often in force at the same time in one and the same enterprise. Under capitalism both of these forms of wages are only different ways of intensifying the exploitation of the working class.

Capitalist piece-work provides the basis for the sweating systems of wages which are applied in capitalist countries.

Sweating Systems of Wages

The most important feature of capitalist piece-work is the unbounded intensification of work, which drains the worker's entire strength. At the same time the wages paid do not compensate for this increased expenditure of labour-power. Beyond the limits of a certain length and intensity of work, no additional payment can avert direct destruction of labour-power.

As a result of the use in capitalist enterprises of exhausting methods of organising labour, towards the end of the working day an overstrain of the worker's muscular and nervous strength

usually makes itself felt, which leads to a falling-off in the productivity of labour. In his pursuit of increased surplus-value the capitalist resorts to various *sweating systems of wages*, so as to achieve a high intensity of labour throughout the entire length of the working day. Under capitalism it is such aims as these that are served by the so-called "scientific organisation of labour". Widespread forms of such organisation of labour, with use of wage-systems which are extremely exhausting in their effect on the worker, are *Taylorism* and *Fordism*, underlying both of which is the principle of raising the intensity of labour to the maximum.

The essence of Taylorism (the system is named after its deviser, the American engineer F. Taylor) is as follows. The strongest and most dexterous workers in the enterprise are picked out. They are obliged to work at their maximum intensity. Their execution of each separate operation is timed in seconds and fractions of a second. On the basis of the data obtained by this time-study a production regime and time norms are laid down for the whole mass of the workers. When he overfulfils the norm (the "job"), the worker receives a small addition to his daily wage—a bonus; if the norm is not fulfilled, the worker is paid at a lower rate. Capitalist organisation of labour in accordance with Taylor's system sucks out all the worker's strength, and transforms him into an automaton mechanically performing the same movements over and over again.

V. I. Lenin gives an actual example (the work of loading pig-iron on to a truck), where with the introduction of Taylor's system into the execution of one operation alone a capitalist was able to reduce the number of workers from 500 to 140, i.e., to divide it by 3·6; by monstrously intensifying the work, the daily norm of a worker engaged in loading was raised from 16 to 59 tons, i.e., multiplied by 3·7. While a worker now carried out in one day work which previously he had taken three to four days to carry out, his daily wages nominally increased (and then only for a time) by only 63 per cent in all. In other words, with the introduction of this system of payment the daily earnings of a worker were divided, in fact, if one compares them with the labour expended, by 2·3. "As a result," wrote Lenin, "in those same 9–10 hours of work three times as much labour is extorted from the worker, all his strength is ruthlessly exhausted, every drop of the wage-slave's nervous and muscular energy is sucked out of him at treble speed. Does he die sooner than he would have done? There are many others at the gate! . . ." (Lenin, "A 'Scientific' System of Squeezing Out Sweat", *Works*, Russian edition, vol. XVIII, p. 556.)

Lenin called such ways of organising the worker's labour and wages a "scientific" system of squeezing out sweat.

The system of organising labour and wages introduced by the

American "automobile king" H. Ford and other capitalists (the system of Fordism) has the same aim, that of extracting the largest possible amount of surplus-value by maximising the intensity of labour. This it achieves by continually greater speeding-up of the conveyor belts and introduction of sweating systems of wage-payment. The simplicity of the work operations performed by a worker at one of Ford's conveyor belts makes it possible to use the labour of unskilled workers on a wide scale and to fix a low rate of wages for them. The tremendous intensification of labour is not accompanied by any increase in wages or reduction of working hours. The result is that the worker quickly becomes worn out and transformed into a sick man; he is dismissed from the works as unfit and falls into the ranks of the unemployed.

Intensified exploitation of the workers is attained also by other systems of organising labour and wages which are variants of Taylorism and Fordism. Among these is the *Gantt system* (U.S.A.). Unlike Taylor's piece-work system, the Gantt system is one of time-bonuses. The worker is assigned a certain "job" and a very low guaranteed payment is fixed for a unit of working time, regardless of fulfilment of the norm. If he fulfils the norm the worker is paid a small addition to his guaranteed minimum—a "bonus". The *Halsey system* (U.S.A.) is based on the principle of bonus payments for "time saved" supplementing an "average wage" per hour's work. Under this system, for example, when the intensity of labour is doubled, for every hour of "saved" time a "bonus" is paid, amounting to about a third of the hourly rate. By this method, the more intensive the worker's labour the greater the degree to which his wages fall in relation to the labour he expends. The *Rowan system* (Britain) is based on the same principles.

A method of increasing surplus-value which is grounded in deception of the workers is so-called "profit-sharing". On the pretext of giving the workers an interest in raising the profitability of the enterprise, the capitalist lowers the workers' wages and at their expense sets up a fund for "distribution of profits among the workers". Later on, towards the end of the year, the worker is paid, under the name of "profit", what is in fact part of the wages which had previously been kept back from him. In the end the worker who is "sharing the profits" receives in fact less than the usual wages. For the same purpose shares in an enterprise are distributed among the workers.

The capitalists' tricks in all kinds of wage systems are aimed at extracting as much surplus-value as possible from the workers. The employers use such methods in order to befuddle the workers' minds with an imaginary interest in intensifying labour, reducing expenditure on wages per unit of production and raising the profits of the concern. In this way the capitalist strives to weaken the proletariat's resistance to the offensive of

capital, to induce the workers to refuse to join trade unions or take part in strikes and to bring about a split in the labour movement.

Behind all the various forms of capitalist piece-work the essence remains the same: as the intensity and productivity of labour is raised the workers' earnings in fact fall while the capitalist's income increases.

Nominal and Real Wages

In the early stage of capitalism's development payment o wages to the workers *in kind* was widespread: the worker received shelter, some meagre food and a little money.

Wages in kind survive to some extent even into the machine period of capitalism. They existed, for instance, in the extractive and textile industries of pre-revolutionary Russia. Wages in kind are widespread in capitalist agriculture where the labour of poor peasants is used, in certain branches of industry in the capitalist countries, and in the colonial and dependent countries. The forms in which the worker is paid in kind vary. The capitalists place the workers in a position where they are forced to take food on credit from the factory shop, to lease a dwelling near the mine or on the plantation on oppressive terms fixed by their employer, etc. Under methods of wage-payment in kind the capitalist exploits the wage-worker not only as a seller of labour-power but also as a consumer.

Money wages are characteristic of the capitalist mode of production in its developed form.

Nominal wages must be distinguished from real wages.

Nominal wages are wages expressed in money; the sum of money which the worker receives from the sale of his labour-power to the capitalist.

Nominal wages do not in themselves give any idea of the actual level of payment received by the worker. For example, nominal wages may remain unchanged, but if at the same time taxes and the prices of consumer goods rise, the worker's actual wages fall. Nominal wages may even increase, but if the cost of living rises to a greater extent in the same period of time, then in fact wages have fallen.

Real wages are wages expressed in terms of the worker's means of subsistence; they show how many and what kinds of consumer goods and services a worker can buy with his money

wages. To determine a worker's real wage, one must start from the size of his nominal wages, the level of prices of consumer goods, the level of rents, the burden of taxes borne by the workers, the circumstances that some days he may receive no wages owing to short-time working, and the number of unemployed and semi-unemployed who are supported by the working class. One must also take into account the length of the working day and the degree of intensity of labour.

In determining the average level of wages bourgeois statistics distort reality: they include in wages the incomes of the upper administrative groups of the industrial and financial bureaucracy (managers of enterprises, bank directors, etc.); include only the wages of skilled workers in the category of wages while excluding from it the numerous stratum of poorly-paid, unskilled workers and the agricultural proletariat; ignore the huge army of unemployed and semi-unemployed, the rise in the prices of mass consumer goods and in taxation; and resort to other methods of falsification so as to embellish the situation of the working class under capitalism.

Even falsified bourgeois statistics cannot, however, hide the fact that wages under capitalism, owing to their low level, the raising of the cost of living and the growth of unemployment fail to guarantee a living wage to the majority of the workers.

In 1938 some bourgeois economists in the U.S.A. worked out, using extremely modest standards, a living wage for a worker's family consisting of four persons: 2,177 dollars a year. Yet in 1938 the average wage per head of an industrial worker in the U.S.A. amounted to 1,176 dollars, i.e., considerably less than half of this living wage; if the unemployed were brought into the calculation, the figure came to 740 dollars, i.e., only a third of this subsistence minimum. In 1937 a quite humble living wage for an average worker's family in Britain was defined by some bourgeois economists at 55*s*. a week. Official figures showed that 80 per cent of the workers in the coal industry, 75 per cent of the workers in the extractive industries other than coal mining, and 57 per cent of municipal workers in Britain were being paid less than this subsistence minimum.

Decline of Real Wages under Capitalism

On the basis of his analysis of the capitalist mode of production, Marx established the following fundamental law relating to wages. "The general tendency of capitalist production is not

to raise but to sink the average standard of wages." (Marx, "Wages, Price and Profit", Marx and Engels, *Selected Works*, 1950, English edition, vol. 1, p. 405.)

Wages as the price of labour-power, like the price of any other commodity, are determined by the law of value. The prices of commodities vary in capitalist economy both above and below their value, under the influence of supply and demand. But unlike the prices of other commodities the price of labour-power, as a rule, *tends to fall below* its value.

This tendency of wages to fall below the value of labour-power is due above all to the existence of *unemployment*. The capitalist tries to buy labour-power as cheap as he can. When there is unemployment the supply of labour-power exceeds the demand for it. The commodity labour-power differs from others in that the proletarian cannot put off selling it. So as not to die of hunger, he is compelled to sell his labour-power on whatever terms the capitalist offers him. In periods of complete or partial unemployment the worker is either entirely without wages or else their level falls sharply. When there is unemployment this intensifies competition among the workers. Taking advantage of this, the capitalist pays the worker wages which are less then the value of his labour-power. In this way the wretched situation of the unemployed, who form part of the working class, has an effect on the material position of the workers in employment, reducing the level of their wages.

Furthermore, the use of machinery provides the capitalist with extensive opportunities of substituting *female and child labour* for men's. The value of labour-power is determined by the value of the means of subsistence which are needed by a worker and his family. When, therefore, the worker's wife and children are drawn into production, the worker's wages fall and the entire family now receives approximately the same amount as previously was received by the head of the family only. This by itself means that the working class as a whole is being exploited still more intensely. In capitalist countries women workers doing the same work as men are paid considerably less wages.

Capital extorts surplus-value by unrestrainedly exploiting child labour. The wages of children and youths are much lower than those of adult workers in all capitalist and colonial countries.

The average wage of a woman worker is lower than the average wage of a male worker by 41 per cent in the U.S.A. (1949), 46 per cent in Great Britain (1951), and 42 per cent in Western Germany (1951). The difference is even more marked in colonial and dependent countries.

In the U.S.A. in 1949, according to conservative figures, more than 3,300,000 of the wage-workers were children and youths. The working day for children and youths is very long; thus, in starch works and in canning and meat factories, laundries and dry-cleaning workshops, children work 12–13 hours a day.

In Japan the practice of selling children for work in the factories is widespread. Child labour was employed extensively in Tsarist Russia. A considerable section of the workers in textile and several other kinds of enterprise in Russia was made up of children aged eight to ten.

The exploitation of child labour by capital assumes particularly cruel forms in colonial and dependent countries. In the textile and tobacco factories of Turkey children of seven to fourteen work a full working day, the same as adults.

The low wages of women workers and the exploitation of child labour brings in its train a tremendous growth of sickness and child mortality and has a baneful effect on the upbringing and education of the rising generation.

The decline in the workers' real wages is caused also by the fact that, as capitalism develops, the position of a substantial section of the *skilled workers* deteriorates. As already mentioned, the expenses of a worker's training enter into the value of his labour-power. A skilled worker creates more value, including surplus-value, in a given unit of time, than an unskilled worker. The capitalist is obliged to pay for skilled labour more than he pays for unskilled. But as capitalism develops, with the growth of industrial technique, while on the one hand there arises a demand for highly-skilled workers, able to control and operate complicated mechanisms, on the other hand many work-operations are simplified and the labour of a considerable section of the skilled workers becomes redundant. Considerable sections of the skilled workers lose their skill, are pushed out of employment and are forced to take up unskilled work which is paid a great deal less.

The rise in the cost of living and the fall in the level of real wages connected with this are caused also by the *rise in prices* of mass consumer goods. Thus, in France, on account of inflation, retail prices of foodstuffs stood in 1938 at a level more than seven times as high as in 1914.

A considerable part of the worker's wages is absorbed by *rent*. In Germany between 1900 and 1930 the average rent grew by 69 per cent. According to the figures of the International Labour Office, in the 1930's the workers spent on rent, heating and lighting, in the U.S.A., 25 per cent of their family budgets, in Britain 20 per cent and in Canada 27 per cent. In Tsarist Russia workers' expenditure on housing came to as much as a third of their wages.

Taxes which fall on the working people make a big deduction from their wages. In the principal capitalist countries in the post-war period direct and indirect taxes absorb as much as a third of the wages of a working-class family.

One widespread method of reducing wages was the system of *fines*. In Tsarist Russia, until the promulgation of the law on fines (1886), which somewhat restricted the arbitrary behaviour of the factory owners, deductions from wages in the shape of fines amounted in certain cases to as much as half the monthly earnings of a worker. A worker was fined on every kind of pretext: for "unsatisfactory work", for "breach of regulations", for talking, for taking part in demonstrations, etc. Fines serve not only as a means of strengthening capitalist labour discipline but also as a source of additional income for the capitalist.

Another factor in the decline of the workers' real wages is the exceptionally low wages received by the *agricultural proletariat*. The great army of surplus labour-power in the countryside exerts a constant downward pressure on the wage-level of the employed workers.

Thus, for example, during the period 1910–39 the average monthly wage of an agricultural worker in the U.S.A. varied between 28 to 47 per cent of the wage of an industrial worker. The situation of the agricultural workers in Tsarist Russia was an exceptionally hard one. For a working day of 16–17 hours the average daily wage drawn by a seasonal agricultural worker in Russia in 1901–10 amounted to 69 kopeks, and the miserable pay which he thus obtained during ploughing, sowing and harvest periods had to support him during the remaining months of the year when he was completely or partially unemployed.

So, with the development of the capitalist mode of production the real wages of the working class suffer a reduction.

In 1924 the real wages of the German workers were 75 per cent of what they had been in 1900, and in 1935 they were 66 per cent. In

the U.S.A. the average nominal wages of the workers (unemployed included) grew by 68 per cent between 1900 and 1938; in the same period, however, the cost of living rose to 2·3 times its height at the beginning of the century, so that the workers' real wages fell by as much as 74 per cent between these years. In France, Italy and Japan, not to speak of the colonial and dependent countries, the decline in real wages in the nineteenth to twentieth centuries was considerably greater than in the U.S.A. In Tsarist Russia in 1913 the real wages of industrial workers had fallen by not less than 90 per cent from their level in 1900.

The value of labour-power is not identical in all countries. The conditions which determine the value of labour-power vary from one country to another. This fact gives rise to *national differences* in wages. Marx wrote that, in making comparisons between wages in different countries, one must take into account all the factors which determine variations in the magnitude of the value of labour-power: the historical conditions under which the working class was formed and its established level of requirements, the cost of training a worker, the part played by the labour of women and children, the productivity of labour, the intensity of labour, the prices of consumer goods, etc.

An especially low level of wages is to be observed in colonial and dependent countries. In carrying out its policy of enslaving and systematically plundering the colonial and dependent countries, capital takes advantage of the great surplus of working hands available in those countries and pays for labour-power at very much less than its value. In this connection the worker's nationality is taken into account. Thus, for instance, whites and Negroes doing the same work are paid at different rates. In South Africa the average wage of a Negro worker is only one-tenth that of a white worker. In the U.S.A. Negroes in the cities are paid two-fifths as much, and in agriculture hardly one-third as much as whites who do the same work.

The bourgeoisie creates, at the expense of the lowered wages of the basic mass of the workers and the plunder of the colonies, privileged conditions for a relatively small stratum of well-paid workers. The bourgeoisie uses the so-called aristocracy of labour formed from these well-paid strata, including a section of trade union officials and co-operative bureaucrats, some of the foremen, etc., for the purpose of splitting the labour movement, and poisoning the consciousness of the basic mass of proletarians

with preachings about class peace and the unity of interests between exploiters and exploited.

The Struggle of the Working Class to Raise Wages

In each country a certain level of wages is established, on the basis of the law of the value of labour-power, as a result of a fierce class struggle between the proletariat and the bourgeoisie.

The extent to which wages can diverge from the value of labour-power has its limits.

The *minimum* limit of wages under capitalism is fixed by purely *physical* conditions: the worker must have that quantity of means of subsistence which he needs absolutely in order to live and reproduce his labour-power. "If the price of labour-power falls to this minimum it falls below its value, since under such circumstances it can be maintained and developed only in a crippled state." (Marx, *Capital*, Kerr edition, vol. I, p. 192.) When wages fall below this limit there occurs an accelerated process of direct physical destruction of labour-power and dying-off of the working population. This finds expression in a shortening of the average expectation of life, a fall in the birth rate and an increase in the mortality rate among the working population, both in the developed countries and also, and especially, in the colonial countries.

The *maximum* limit of wages under capitalism is the value of labour-power. The degree to which the average level of wages approximates to this limit is determined by the relation of class forces as between proletariat and bourgeoisie.

The bourgeoisie endeavours, in its striving for greater profits, to reduce wages below the physical minimum limit. The working class fights against cuts in wages and for increased wages, for the establishment of a guaranteed minimum wage, for the introduction of social insurance, and for a shorter working day. In this struggle the working class is opposed by the capitalist class as a whole and by the bourgeois State.

The stubborn struggle waged by the working class to raise wages had its beginning along with the rise of industrial capitalism. It developed first in Britain, and later spread to the other capitalist countries and to the colonies.

As the proletariat takes shape as a class, the workers come together in *trade unions* for the purpose of successfully conducting

their economic struggle. The result of this is that the employer finds himself opposed no longer by individual proletarians but by an entire organisation. With the development of the class struggle, besides local and national trade unions there came into being international associations of trade unions. The trade unions provide a *school of class struggle* for the broad masses of the workers.

On their part, the capitalists come together in employers' associations. They bribe venal and reactionary trade union officials, organise strike-breaking, split the workers' organisations, and use the police, troops, courts and prisons to suppress the labour movement.

One of the effective methods of struggle used by the workers under capitalism to secure increased wages, shorter working hours and improved conditions of work is the *strike*. As class contradictions become more acute and the working-class movement becomes better organised in the capitalist and colonial countries, many millions of workers are drawn into strike struggles. When workers struggling against capital show determination and stubbornness, economic strikes force the capitalists to accept the strikers' terms.

It is only as a result of the unremitting struggle of the working class for its vital interests that the bourgeois States are compelled to promulgate laws on minimum wages, on reduction of working hours and on restriction of child labour.

The economic struggle of the proletariat is of great importance: as a rule, trade unions under steadfast class leadership put up a successful resistance to the employers. The struggle of the working class is a factor which to a certain extent restricts the fall in wages. But the economic struggle of the working class cannot abolish the system of capitalist enslavement of the working people and deliver the workers from exploitation and want.

While recognising the great importance of the economic struggle of the working class against the bourgeoisie, Marxism-Leninism teaches that this struggle is directed merely against the consequences of capitalism and not against the root cause of the oppressed situation and poverty of the proletariat. This root cause is the capitalist mode of production itself.

Only through revolutionary political struggle can the working class abolish the system of wage slavery, the source of its economic and political oppression.

BRIEF CONCLUSIONS

(1) In capitalist society wages are the monetary expression of the value of labour-power, its price, appearing to be the price of labour. Wages hide the relationship of capitalist exploitation, creating the false impression that all the worker's labour is paid for, whereas in reality wages constitute only the price of his labour-power.

(2) The main forms of wages are time wages and piece wages. Under the time-wage system the size of the worker's wage-packet depends on the time he spends at work. Under the piece-wage system the size of the worker's wage-packet depends on the number of articles he produces. For the purpose of increasing surplus-value the capitalists employ a variety of sweating systems of wage-payment, which lead to a tremendous increase in the intensity of labour and to an accelerated wearing-out of labour-power.

(3) Nominal wages are the amount of money received by the worker for the labour-power which he sells to the capitalist. Real wages are wages expressed in terms of the worker's means of subsistence; they show what quantity of means of subsistence and services the worker can buy for his money wages.

(4) As capitalism develops real wages fall. Unlike the prices of other commodities the price of labour-power, as a rule, fluctuates below its value. This is due above all to the existence of unemployment, to extensive use of female and child labour and to the paying of extremely low wages to the agricultural workers and also to the workers in the colonial and dependent countries. An important factor in the decline in real wages is the rise in the prices of consumer goods, high rents and the growth of taxation.

(5) The working class, united in trade unions, conducts a struggle to shorten working hours and raise wages. The economic struggle of the proletariat against capital cannot by itself free the proletariat from exploitation. Only with the liquidation of the capitalist mode of production through revolutionary political struggle can the conditions be eliminated under which the working class is economically and politically oppressed.

CHAPTER IX

ACCUMULATION OF CAPITAL AND IMPOVERISHMENT OF THE PROLETARIAT

Production and Reproduction

If it is to live and develop, society must produce material wealth. It cannot stop producing, as it cannot stop consuming.

From day to day and year to year people consume bread, meat and other foodstuffs, and wear out clothes and footwear; but at the same time fresh masses of bread, meat, clothes, footwear and other products are being produced by human labour. Coal is being burnt in stoves and furnaces but at the same time fresh masses of coal are being drawn from the bowels of the earth. Machine-tools gradually wear out, locomotives sooner or later become decrepit, but fresh machine-tools are being built in the factories and fresh locomotives are being made. Under any system of social relations the process of production must continually be renewed.

This continued renewal and ceaseless repetition of the production-process is *reproduction*. "When viewed, therefore, as a connected whole, and as flowing on with incessant renewal, every social process of production is at the same time a process of reproduction." (Marx, *Capital*, Kerr edition, vol. I, p. 620.) Whatever the conditions of production are, so also are the conditions of reproduction. If production is capitalist in form, then reproduction takes this form too.

The process of reproduction consists not only in people making ever fresh masses of products in place of, and in excess of, those consumed, but also in the fact that the corresponding production-relations in society are constantly being renewed.

Two types of reproduction must be distinguished: simple and extended.

Simple reproduction means repetition of the production-process on the same scale as before, the newly-produced products merely replacing the means of production and consumer goods which have been expended.

Extended reproduction means repetition of the production-process on an enlarged scale, when society does not merely replace the material wealth which has been consumed but also produces additional means of production and consumer goods over and above this.

Before the rise of capitalism the productive forces developed very slowly. The dimensions of social production changed little from year to year and from decade to decade. Under capitalism the former scarcely-moving, stagnant state of social production gave place to a much more rapid development of productive forces. Typical of the capitalist mode of production is extended reproduction, which is interrupted by economic crises, when production falls off.

Capitalist Simple Reproduction

Under capitalist simple reproduction the production-process is renewed without change of volume, the surplus-value being spent entirely on personal consumption by the capitalists.

An examination even of simple reproduction enables one to look more closely into some of the essential features of capitalism.

In the process of capitalist reproduction it is not only the products of labour that are incessantly being renewed but also the relations of capitalist exploitation. On the one hand, in the course of reproduction wealth is constantly being created; this belongs to the capitalist and he uses it to appropriate surplus-value. At the expiration of each production-process the employer appears, again and again, as the owner of capital which enables him to enrich himself by exploiting workers. On the other hand, the worker constantly emerges from the production-process as a propertyless proletarian and is therefore obliged, if he is not to die of hunger, again and again to sell his labour-power to the capitalist. Reproduction of hired labour-power always remains a necessary condition for the reproduction of capital.

> "Capitalist production therefore, of itself reproduces the separation between labour-power and the means of labour. It thereby reproduces and perpetuates the condition for exploiting the worker. It incessantly forces him to sell his labour-power in order to live, and enables the capitalist to purchase labour-power in order that he may enrich himself." (Marx, *Capital*, Kerr edition, vol. I, p. 623.)

Thus, the fundamental relationship of capitalism is continually renewed in the process of production: the capitalist on the one hand and the wage-worker on the other. Even before he sells his labour-power to one employer or another, the worker already belongs to the combination of capitalists, i.e., to the class of capitalists as a whole. When the proletarian changes his place of work, he only exchanges one exploiter for another. The worker is chained for life to the chariot of capital.

If we examine a single process of production, it seems at first sight as though the capitalist, when he buys labour-power, is advancing money to the worker from his own funds, since at the time when he pays the worker his wages the capitalist may not yet have had time to sell the commodity which the worker has produced in the period for which he is paid (a month, say). But if we take the buying and selling of labour-power, not in isolation but as an element of reproduction, as a continually repeated relationship, then the true character of this transaction is revealed.

First of all, while the worker's labour is creating new value, including surplus-value, in this period the product turned out by the worker in the preceding period is being realised on the market and transformed into money. Hence, it is clear that the capitalist pays the worker his wages not out of his own pocket but out of the value which the worker's labour has created in the preceding period of production (e.g., during the previous month). To use Marx's expression, the capitalist class acts on the time-honoured principle of the conqueror: it buys commodities from the conquered with their own money, of which it has robbed them.

Secondly, unlike what happens with other commodities, labour-power is paid for by the capitalist only after the worker has performed a certain amount of labour. So it turns out that it is not the capitalist who makes an advance to the proletarian, but, on the contrary, it is *the proletarian who makes an advance to the capitalist.* For this reason employers endeavour to pay wages at as long intervals as possible, so prolonging the time during which they are receiving free credit from the workers.

The capitalist is continually supplying the workers, in the form of wages, with money for purchasing the means of subsistence, i.e., with a certain part of the product which the workers' labour has created and which has been appropriated

by the exploiters. This money the workers no less regularly give back to the capitalists, receiving in exchange for it the means of subsistence which the working class itself has produced.

An examination of capitalist relations in the course of reproduction reveals not only the real source of wages but also the real source of all capital.

Let us suppose that a capital of £100,000 invested by an entrepreneur brings in annually surplus-value to the amount of £10,000, and that the whole of this sum is spent entirely by the capitalist on his personal consumption. If the entrepreneur did not appropriate the worker's unpaid labour, his capital would be completely exhausted after ten years had elapsed. This does not happen because the sum of £100,000 which is spent by the capitalist on his personal consumption during this period is completely renewed from the surplus-value created by the unpaid labour of the workers.

Consequently, whatever might be the original source of a given capital, in the course of simple reproduction itself this capital becomes within a certain period value created by the workers' labour and *appropriated without compensation* by the capitalist. This exposes the absurdity of the assertions made by bourgeois economists that capital is wealth created by the employer's own labour.

Simple reproduction is a constituent part or element of extended reproduction. The relations of exploitation which are inherent in capitalist simple reproduction become still accentuated under conditions of capitalist extended reproduction.

Capitalist Extended Reproduction. Accumulation of Capital

Under extended reproduction a part of the surplus-value is put back by the capitalist in order to increase the scale of production: for the purchase of additional means of production and the hiring of additional workers. Thus, part of the surplus-value is amalgamated with already existing capital, i.e., is accumulated.

The accumulation of capital means the addition of part of the surplus-value to capital, or the transformation of part of the surplus-value into capital. Thus it is surplus-value that provides the source of accumulation. Capital grows through the exploitation of the working class, and along with it capitalist production-relations are reproduced on an extended basis.

Among the compelling motives for accumulation of capital is, first and foremost, the *striving to increase surplus-value*. Under the capitalist mode of production greed for gain knows no limits. As the extent of production grows, so grows the mass of surplus-value appropriated by the capitalist, and, consequently, so also grows that part of it which goes to satisfy the personal requirements and whims of the capitalists. On the other hand, the capitalists are enabled, at the expense of the growing amount of surplus-value, to extend production more and more, to exploit an ever greater number of workers and to appropriate an ever-increasing mass of surplus-value.

Another motive force in the accumulation of capital is the ferocious *competitive struggle*, in the course of which the larger capitalists find themselves in a better position than the others and strike down the small ones. Competition forces every capitalist, under penalty of ruin, to improve his technique and extend production. To stop the growth of technique and the extension of production means to lag behind, and those who lag behind are conquered by their competitors. Thus, the competitive struggle compels every capitalist to increase his capital, and he can increase his capital only by continually accumulating part of the surplus-value.

The accumulation of capital is the source of extended reproduction.

Organic Composition of Capital. Concentration and Centralisation of Capital

In the course of capitalist accumulation the total mass of capital grows, but the different parts into which it is divided do not change at the same rate and consequently the composition of capital changes.

When he accumulates surplus-value and extends his enterprise, the capitalist usually introduces new machinery and technical improvements, because these promise him an increase in his profits. The development of technique means a more rapid growth of that part of capital which exists in the form of means of production—machinery, buildings, raw materials, i.e., constant capital. On the other hand, that part of capital which is spent on the purchase of labour-power, i.e., variable capital, grows much more slowly.

The proportion between constant and variable capital, being determined by the proportion between the mass of means of production and of living labour-power, is called the *organic composition of capital*. Let us take, for example, a capital of £100,000. Suppose that of this sum £80,000 is spent on buildings, machinery, raw materials, etc., and £20,000 on wages. The organic composition of this capital is, then, 80 *c* : 20 *v*, or 4 : 1.

In different branches of industry and in different enterprises within one and the same branch the organic composition of capital varies: it is higher where there are more complex and costly machines and more worked-up material per worker; it is lower where living labour predominates and the amount of machinery and material per worker is less and is comparatively inexpensive.

With the accumulation of capital the organic composition of capital *grows*: the share of variable capital declines while that of constant capital increases. Thus, in the industry of the U.S.A. the organic composition of capital, which in 1889 was 4·4 : 1, was 5·7 : 1 in 1904, 6·1 : 1 in 1929, and 6·5 : 1 in 1939.

The size of individual capitals grows in the course of capitalist reproduction. This occurs through the concentration and centralisation of capital.

The concentration of capital means the growth in the size of capital as a result of the accumulation of surplus-value obtained in the given enterprise. The capitalist becomes, through investing in his enterprise part of the surplus-value which he has appropriated, the owner of an ever larger capital.

The *centralisation of capital* means the growth in the size of capital as a result of fusing several capitals into one larger capital. In the competitive struggle large capital ruins and devours smaller and medium capitalist enterprises which cannot stand up to competition. By buying up the enterprises of his ruined competitor at low prices, or annexing them to his own by some other method (e.g., by means of loans), the large-scale factory-owner increases the amount of capital in his possession. The union of many capitals into one is effected also by the forming of joint-stock companies, etc.

Concentration and centralisation of capital mean the concentrating of monstrous amounts of wealth in the hands of a few persons. The enlargement of capitals opens wide possibilities for the concentration of production, i.e., for the gathering together of production in large-scale enterprises.

Large-scale production has decisive advantages over small. Large-scale enterprises can introduce machinery and technical improvements, and can apply a broad division and specialisation of labour which is beyond the resources of small concerns. This results in products being turned out more cheaply in large-scale enterprises than in small-scale ones. The competitive struggle involves great expenses and losses. A large-scale concern can bear these losses and later recover them with interest, whereas small and even medium ones are ruined by them. Large capitalists are able to obtain loans with comparatively much greater ease, and on more favourable conditions; and credit is one of the chief weapons used in the competitive struggle. Owing to all these advantages which they possess it is large concerns, equipped with powerful technique, that increasingly come to the forefront in the capitalist countries, while a multitude of small and medium concerns go down in ruin. As a result of the concentration and centralisation of capital a few capitalists, the owners of enormous fortunes, become masters of the fate of tens and hundreds of thousands of workers.

Capitalist concentration in agriculture leads to the land and other means of production becoming increasingly concentrated in the hands of large property-owners, while broad strata of small and middle peasants, deprived of land, draught animals and implements, fall into debt-bondage to capital. Masses of peasants and craftsmen are ruined and transformed into proletarians.

The concentration and centralisation of capital thus lead to *sharpening of class contradictions*, to deepening of the gulf between the bourgeois, exploiting minority and the propertyless, exploited majority of society. The concentration of production also results in ever greater masses of the proletariat being concentrated in large capitalist enterprises, in industrial centres. This facilitates the welding together of the workers and their organisations for the struggle against capital.

The Industrial Reserve Army

The growth of production under capitalism, as mentioned already, is accompanied by a rise in the organic composition of capital. The demand for labour-power is determined by the size, not of capital as a whole, but only of its variable part.

But the variable part of capital declines, compared with constant capital, as technical progress advances. Therefore as capital accumulates and its organic composition increases, the demand for workers *relatively contracts*, although the total numbers of the proletariat grow in proportion as capitalism develops.

As a result, a substantial mass of workers are unable to find application for their labour. Part of the working population becomes "redundant", forming the so-called *relative surplus-population*. This surplus-population is relative because part of the labour-power available is surplus only in relation to the requirements of the accumulation of *capital*. Thus, in bourgeois society, as social wealth grows, one section of the working class is doomed to ever heavier and more excessive labour while the other section is doomed to compulsory unemployment.

The following main forms of relative surplus-population must be distinguished:

The *fluctuating surplus-population* is made up of workers who lose their jobs for a certain period as a result of a contraction of production, introduction of new machinery or the closing down of enterprises. As production is extended, a section of these unemployed workers find work, just as do some of the workers newly coming forward from the rising generation. The total number of workers employed grows, but in constantly diminishing proportion compared with the scale of production.

The *latent surplus-population* consists of ruined small producers, predominantly poor peasants and landworkers, who are employed in agriculture during only a small part of the year, cannot find application for their labour in industry and drag out a miserable existence in the countryside living from hand to mouth somehow or other. In contrast to what happens in industry, in agriculture the growth of technique leads to the demand for labour declining absolutely.

The *stagnant surplus-population* is formed by these numerous groups of people who have lost regular work, are employed extremely irregularly and are paid a great deal less than the usual rate of wages. These consist of the extensive strata of the working people employed in capitalist domestic industry and also those living by casual day-to-day work.

Finally, the lowest stratum of relative surplus-population is constituted by people who have been pushed out of productive life over a long period, without any hope of recovering their position, and live by casual earnings. A section of these people get their living by begging.

Workers squeezed out of production constitute the *industrial reserve army*—the army of unemployed. This army is a necessary

appendage of capitalist economy, without which it can neither exist nor develop. In periods of industrial boom, when a rapid extension of production is required, there is a sufficient number of unemployed at the disposal of the employers. As a result of the extension of production unemployment is temporarily reduced. But later a crisis of overproduction occurs, and once again considerable masses of workers are thrown on to the street, to reinforce the reserve army of the unemployed.

The existence of the industrial reserve army enables the capitalists to intensify their exploitation of the workers. Unemployed workers have to accept the most onerous conditions of work. The presence of unemployment creates an unstable situation for the employed workers and sharply reduces the standard of life of the working class as a whole. That is why the capitalists are not interested in abolishing the industrial reserve army, which exercises pressure on the labour market and ensures them a supply of cheap labour-power.

As the capitalist mode of production develops, the army of unemployed, which declines in periods of boom and grows in periods of crisis, on the whole increases.

In Britain the percentage of unemployed among members of trade unions was: in 1853—1·7 per cent, in 1880—5·5 per cent, in 1908—7·8 per cent, in 1921—16·6 per cent. In the U.S.A., according to official figures, the percentage of unemployed in the working class as a whole was: in 1890—5·1 per cent, in 1900—10 per cent, in 1915—15·5 per cent, in 1921—23·1 per cent. In Germany the percentage of trade unionists out of work grew from 0·2 per cent in 1887 to 2 per cent in 1900 and 18 per cent in 1926. The volume of the relative surplus-population is enormous in the countries of the colonial and semi-colonial East.

As capitalism develops, *partial unemployment*, under which a worker is employed in production for only part of the day or only part of the working week, assumes bigger and bigger proportions.

Unemployment is a real scourge to the working class. The worker can only live by selling his labour-power. Workers dismissed from the factories face starvation. Often the unemployed have to go without shelter because they have not the means to pay for a night's lodging. Thus, the bourgeoisie shows itself unable to guarantee the wage-slaves of capital a slave's standard of living.

Bourgeois economists try to justify the existence of unemployment under capitalism by references to eternal laws of nature. This was the aim served by the pseudo-scientific fabrications of Malthus, a reactionary British economist who flourished at the end of the eighteenth century and the beginning of the nineteenth century. According to the "law of population" invented by Malthus, the population, from the very beginning of human society, has increased in geometrical progression (as 1, 2, 4, 8, etc). but the means of subsistence, owing to the limitations of natural resources, have grown only in arithmetical progression (as 1, 2, 3, 4, etc.) This, said Malthus, was the fundamental cause of the existence of surplus-population and of starvation and want among the masses of the people. The proletariat, in Malthus's opinion, can free itself from poverty and hunger not by abolishing the capitalist system but by abstaining from marriage and artificially restricting childbearing. Malthus considered wars and epidemics beneficial, since they cut down the working population. The theory of Malthus is profoundly reactionary. It is a means whereby the bourgeoisie justifies the incurable taints of capitalism. Malthus's fabrications have nothing in common with reality. The mighty technique which mankind has at its disposal is capable of increasing the amount of means of life at rates which cannot be overtaken by even the fastest growth of population. But this is prevented by the capitalist system, which is the real cause of the poverty of the masses.

Marx discovered the *capitalist law of population*, which is that in bourgeois society the accumulation of capital leads to a section of the workers inevitably becoming relatively surplus and being thrust out of employment and doomed to suffer poverty and want. The capitalist law of population is engendered by the production-relations of bourgeois society.

Agrarian Surplus-Population

As already mentioned, one of the forms of the relative surplus-population is the latent, or agrarian surplus-population.

The *agrarian surplus-population* is the excess population in the agricultural economy of the capitalist countries, which arises as a result of the ruin of masses of the peasantry; these people can find only partial employment in agricultural production and cannot be absorbed into industry.

As capitalism develops, the differentiation among the peasantry is intensified. A numerous army of agricultural workers and poor peasants is formed. Large-scale capitalist economy creates a demand for wage-workers. But in proportion as

capitalist production lays hold of one branch of agriculture after another and the use of machinery becomes widespread, the mass of the peasants are more and more ruined and the demand for agricultural wage-workers is reduced. The ruined sections of the rural population are continually being transformed into industrial proletarians or reinforce the army of unemployed in the cities. A considerable part of the rural population, unable to find work in industry, remain in the country, where only occasionally do they find employment in agriculture.

The latent character of the agrarian surplus-population consists in the fact that surplus labour-power in the countryside is always connected in some degree or another with small and very small peasant economy. The agricultural wage-worker usually has a small holding which serves as a means of supplementing his earnings when he is in employment, or as the source of a miserable livelihood when he is out of it. Such holdings are needed by capitalism, so that it may have cheap labourers at its disposal.

The agrarian surplus-population attains huge dimensions under capitalism. In Tsarist Russia at the end of the nineteenth century latent unemployment in the countryside embraced 13,000,000 persons. In Germany in 1907, out of 5,000,000 peasant households, 3,000,000 petty ones formed a reserve army of labour. In the U.S.A. in the 1930's official data, obviously tending towards underestimation, showed 2,000,000 "superfluous" farmers. Every year in the summer months between 1,000,000 and 2,000,000 American agricultural workers, taking their families and household goods with them, wander about the country in search of work.

The size of the agrarian surplus-population is especially large in the colonial countries. Thus, in India, where about three-quarters of the population are engaged in agriculture, the agrarian surplus-population constitutes an army many millions strong. A considerable section of the rural population is made up of people who are in a state of chronic semi-starvation; every year several millions of people die of hunger and epidemics.

The General Law of Capitalist Accumulation. Relative and Absolute Impoverishment of the Proletariat

The development of capitalism leads, with the accumulation of capital, to enormous wealth being concentrated in few hands at one pole of bourgeois society, with a growth in luxury and

parasitism, dissipation and idleness among the exploiting classes; while at the other pole the burden of exploitation becomes continually more intense, and unemployment and poverty increases among those whose labour is the creator of all wealth.

> "The greater the social wealth, the functioning capital, the extent and energy of its growth, and therefore also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army. . . . The relative mass of the industrial reserve army increases therefore with the potential energy of wealth. But the greater this reserve army in proportion to the active labour army, the greater is the mass of a consolidated surplus-population whose misery is in inverse ratio to its torment of labour . . . This is the *absolute, general law of capitalist accumulation.*" (Marx, *Capital*, Kerr edition, vol. I, p. 707.)

The general law of capitalist accumulation gives concrete expression to the operation of the basic economic law of capitalism—the law of surplus-value. The striving to increase surplus-value leads to an accumulation of wealth in the hands of the exploiting classes and to the growth of impoverishment and degradation of the propertyless classes.

As capitalism develops, a process of relative and absolute impoverishment of the proletariat takes place.

Relative impoverishment of the proletariat means that in bourgeois society the working class's share of the total national income steadily decreases, while at the same time the share of the exploiting classes steadily grows.

Notwithstanding the absolute growth of social wealth, the relative weight of the incomes received by the working class sharply declines. Workers' wages in American industry, shown as a percentage of capitalists' profits, were in 1889—70 per cent, in 1918—61 per cent, in 1929—47 per cent and in 1939—45 per cent.

In Tsarist Russia the total amount of nominal wages grew by nearly 80 per cent between 1900 and 1913 as a result of the increase in the number of industrial workers (real wages falling the while), but the profits of the industrialists grew more than threefold.

According to bourgeois economists' figures, in the U.S.A. in the 1920's 1 per cent of the property-owners possessed 59 per cent of all the wealth, while the poorest sections which made up 87 per cent of the population owned only 8 per cent of the national wealth.

In 1920–1 the largest property-owners of Britain, who made up less than 2 per cent of the total number of property-owners,

concentrated 64 per cent of all the country's national wealth in their hands, while 76 per cent of the population possessed only 7·6 per cent of it.

Absolute impoverishment of the proletariat means the direct lowering of its standard of living.

> "The worker is impoverished *absolutely*, i.e., becomes directly poorer than before, is forced to live worse, to eat more meagrely, to go without food for longer periods, to be cooped up in cellars and garrets . . .
>
> "Wealth increases in capitalist society with incredible speed—alongside the impoverishment of the working masses." (Lenin, "Impoverishment in Capitalist Society", *Works*, Russian edition, vol. XIII, pp. 405–6.)

Seeking to whitewash capitalist reality, bourgeois political economy tries to deny the absolute impoverishment of the proletariat. Facts, however, prove that under capitalism the workers' standard of living continually declines. This is shown in many ways.

Absolute impoverishment is expressed in the fall in real wages. As mentioned above, the increase in the prices of articles of mass consumption, the rise in rents and the growth of taxes cause the real wages of the workers to fall.

Absolute impoverishment of the proletariat is expressed in the increase in the amount of unemployment and in its duration.

Absolute impoverishment of the proletariat is expressed in the growth in the intensity of labour and deterioration of working conditions, which lead to the worker ageing rapidly, losing his capacity for work, and becoming disabled. In connection with the growth in the intensity of labour and the absence of needful measures for ensuring safety at work an increase takes place in the number of accidents and injuries at work.

Absolute impoverishment of the proletariat is shown in the acute deterioration in the nutrition and housing conditions of the working people, which results in the undermining of their health, an increase in the death-rate and a reduction in the expectation of life among the working-class people.

In the coal industry of the U.S.A. between 1878 and 1914 the number of accidents at work entailing fatal consequences increased by 71·5 per cent. In the course of 1952 alone about 15,000 persons

were killed and over 2,000,000 injured in the U.S.A. in the course of their employment. In the British coal industry before the war one miner in every six was every year the victim of an accident, but for 1949–53 the figure was one miner in every three.

According to the official data provided by the housing census, about 40 per cent of all dwelling-houses in the U.S.A. fail to come up to the minimum standards of sanitation and safety. The mortality rate among the working-class population is much higher than that amongst the ruling classes. Infant mortality in the slums of Detroit is six times greater than the average for the U.S.A.

The standard of living of the proletariat is particularly low in the colonial countries, where extreme poverty and the extraordinarily high mortality among the workers as a result of their exhausting labour and chronic hunger take on a mass character.

The living standard of the poorest peasantry under capitalism is not higher, but often even lower, than that of the wage-workers. In capitalist society there takes place not only the absolute and relative impoverishment of the proletariat but also the ruin and impoverishment of the basic masses of the peasantry. In Tsarist Russia there were several tens of millions of starving rural poor. According to the data of American censuses, during recent decades about two-thirds of the farm population of the U.S.A., as a rule, has lacked the minimum needed for subsistence. For this reason, the vital interests of the peasants themselves impel the latter to join forces with the working class.

The path of development of capitalism is one of impoverishment and semi-starvation for the great majority of the working people. Under the bourgeois order the growth in the productive forces brings the working class not an easing of their position but increased poverty and privations.

At the same time the struggle of the working class against the bourgeoisie, to overthrow the yoke of capital, develops, and its consciousness and degree of organisation grows. The mass of the peasantry are increasingly drawn into this struggle.

The Basic Contradiction of the Capitalist Mode of Production

In proportion as capitalism develops, it links together the labour of multitudes of people ever more closely. The social division of labour increases. Separate, more or less independent

branches of industry are transformed into a whole series of mutually connected and inter-dependent branches. The economic connections between separate enterprises, districts and entire countries grow to an enormous extent.

Capitalism creates large-scale production both in industry and in agriculture. The development of the productive forces engenders such instruments and methods of production that they demand the joint labour of many hundreds and thousands of workers. Production becomes continually more concentrated. In this way capitalist socialisation of labour and of production takes place.

This growing socialisation of labour occurs, however, in the interests of a few private entrepreneurs who strive to increase their own profits. The product of the social labour of millions of people becomes the private property of the capitalists.

Consequently, a profound contradiction is inherent in the capitalist system: production is a social matter, whereas the ownership of the means of production remains private, capitalistic, and so is incompatible with the social character of production. *The contradiction between the social character of production and the private, capitalist form of appropriation of the results of production* is the *basic* contradiction of the capitalist mode of production, and becomes continually more acute as capitalism develops. This contradiction is expressed in the intensified anarchy of capitalist production, in the growth of class antagonisms between the proletariat and the working masses as a whole, on the one hand, and the bourgeoisie on the other.

BRIEF CONCLUSIONS

(1) Reproduction is the continual renewal and ceaseless repetition of the production-process. Simple reproduction means renewal of production on an unchanged scale. Extended reproduction means renewal of production on an enlarged scale. Typical of capitalism is extended reproduction, interrupted by periodical economic crises, when production declines. Capitalist extended reproduction means continual renewal and deepening of the relations of exploitation.

(2) Extended reproduction under capitalism presupposes accumulation of capital. Accumulation of capital means the

fusion of part of surplus-value with capital, or the transformation of *part of* surplus-value into capital. Capitalist accumulation leads to an increase in the organic composition of capital, i.e., to the more rapid growth of constant capital as compared with variable capital. During capitalist reproduction the concentration and centralisation of capital takes place. Large-scale production has decisive advantages over small, by virtue of which the large and very large enterprises oust and subject to themselves the small and medium capitalist concerns.

(3) With the accumulation of capital and the growth in its organic composition the demand for workers is relatively reduced. An industrial reserve army of unemployed is formed. The excess of labour-power in capitalist agriculture produced by the ruin of the basic masses of the peasantry leads to the creation of an agrarian surplus-population. The general law of capitalist accumulation is the concentration of wealth in the hands of the exploiting minority and the growth of poverty among the working people, i.e., the overwhelming majority of society. Extended reproduction under capitalism leads inevitably to relative and absolute impoverishment of the working class. Relative impoverishment means the decline in the share taken by the working class of the national income in the capitalist countries. Absolute impoverishment is the direct lowering of the standard of living of the working class.

(4) The fundamental contradiction of capitalism is the contradiction between the social character of production and the private, capitalist form of appropriation. As capitalism develops, this contradiction becomes more and more acute, deepening the class antagonisms between bourgeoisie and proletariat.

CHAPTER X

ROTATION AND TURNOVER OF CAPITAL

Rotation of Capital. Three Forms of Industrial Capital

One of the conditions of existence of the capitalist mode of production is developed commodity circulation, i.e., exchange of commodities through the medium of money. Capitalist production is inseparably connected with circulation.

Every individual capital begins its career as a certain sum of money, it appears as *money capital*. The capitalist uses money to buy commodities of certain kinds: (1) means of production, (2) labour-power. This act of circulation can be expressed like this:

$$M-C<\frac{L}{Pm}.$$

In this diagram M stands for money, C for the commodity, L for labour-power, and Pm for means of production. As a result of this change of form which his capital has undergone, its owner has at his disposal everything he needs for production. Whereas previously he owned capital in the form of money, he now owns capital to the same amount but in the form of *productive capital*.

So the *first phase* in the movement of capital is the transformation of money capital into productive capital.

Following this begins the process of production, in which there takes place the *productive consumption* of the commodities which the capitalist has bought. It is expressed in the fact of the workers expending their labour, the raw material being worked up, fuel being burnt and machinery wearing out. Capital changes its form once again: as a result of the production-process the capital invested appears embodied in a certain mass of commodities, it assumes the form of *commodity capital*. However, in the first place, these are not the same commodities which the capitalist bought when he started up in business, and secondly, the value of this mass of commodities is greater than

the original value of his capital, for in it is contained the surplus-value produced by the workers.

This stage in the movement of capital can be shown like this:

$$C < \frac{L}{Pm} \ldots P \ldots C'.$$

Here the letter P stands for production and the dots before and after it show that the process of circulation has been interrupted and a process of production is taking place, while C' stands for capital in the form of commodities, the value of which has grown as a result of the workers surplus labour.

Thus the *second phase* in the movement of capital consists of the transformation of productive capital into commodity capital.

Capital does not stop short with this movement. The commodities which have been produced have to be realised. In exchange for the commodities which he sells the capitalist receives a certain sum of money.

This act of circulation may be depicted like this:

$$C' - M'.$$

Capital changes its shape a third time: it once more assumes the form of money capital. At the end of this process its owner has a larger sum of money than he had at the beginning. The aim of capitalist production, which is to extract surplus-value, has been attained.

Thus the *third stage* in the movement of capital consists in the transformation of commodity capital into money capital.

Having received money for the commodities he has sold, the capitalist spends it once again on buying the means of production and labour-power needed for further production, and the entire process starts anew.

These are the three phases through which capital passes successively in the course of its movement. In each of these phases capital fulfils a corresponding function. The transformation of money capital into the elements of productive capital ensures the union of the means of production which belong to the capitalists with the labour-power of the wage-workers: unless such a union is effected the process of production cannot take place. The function of productive capital is

to create, with the labour of the wage-workers, masses of commodities, new value, and consequently, surplus-value. The function of commodity capital is, through the sale of the mass of commodities which has been produced, first, to return to the capitalist in money form the capital which he invested in production and, second, to realise in money form the surplus-value created in the process of production.

Industrial capital passes through these three phases in the course of its movement. By industrial capital we mean, in this instance, all capital which is used for the production of commodities, regardless of whether industry or agriculture is meant.

> "Industrial capital is the only form of existence of capital in which not only the appropriation of surplus-value or surplus product but also its creation is a function of capital. Therefore it gives to production its capitalist character. Its existence includes that of class antagonisms between capitalists and labourers." (Marx, *Capital*, Kerr edition, vol. II, p. 63.)

Consequently, all industrial capital performs a rotatory movement.

By the *rotation of capital* is meant the successive transformation of capital from one form into another, its movement, which includes three phases. Of these phases, the first and third take place in the sphere of circulation, while the second belongs to that of production. Without circulation, that is, without transformation of commodities into money and then of money back into commodities, capitalist reproduction, i.e., the constant renewal of the production-process, would be unthinkable.

The rotation of capital as a whole can be shown in the following form:

$$M-C<\frac{L}{Pm} \quad \ldots P \ldots C' \ldots M'.$$

All three stages of the rotation of capital are very closely interconnected and mutually dependent. The rotation of capital proceeds normally only so long as its various phases flow uninterruptedly one into the other.

If capital stops short in its first phase, this means it drops into a barren existence as money capital. If the hold-up occurs in the second phase, this means that the means of production remain lifeless and labour-power remains unemployed. If

capital stops short in its last phase, unsold commodities accumulate in the warehouses and clog the channels of circulation.

It is the second phase, when it is in the form of productive capital, that is of decisive importance in the rotation of industrial capital; in this phase takes place the production of commodities, value and surplus-value. In the other two phases value and surplus-value are not created; in them only a change in the form of capital takes place.

To the three phases of the rotation of capital correspond *three forms of industrial capital*: (1) money capital, (2) productive capital and (3) commodity capital.

Every capital exists simultaneously in all of these forms: at the same time as one part of it appears as money capital being transformed into productive capital, another part appears as productive capital being transformed into commodity capital, and a third part appears as commodity capital being transformed into money capital. Each part of it in turn assumes and discards, one after another, all three of these forms. This is true not only of each capital taken separately but also of all capitals taken together, or, in other words, of the aggregate social capital. Therefore, Marx declares, capital can be understood only as a movement and not as a thing lying at rest.

This includes the possibility of *distinct existence* of the three forms of capital. Later on it will be shown how merchant capital and loan capital are separated off from capital employed in production. It is this distinction that provides the basis for the existence of the different groups of the bourgeoisie—manufacturers, merchants, bankers—who share out the surplus-value among themselves.

Turnover of Capital. Time of Production and Time of Circulation

Every capital undergoes rotation as an uninterrupted, constantly repeated process. In this way capital is turned over.

By the *turnover of capital* is meant its rotation, considered not as a momentary act but as a periodically renewed and repeated process. The *period of turnover* of capital is the sum of the time of production and the time of circulation. In other words, the period of turnover is the interval of time which elapses between the moment when the capital is invested in a certain

form to the moment when it returns to the capitalist in the same form but increased by the amount of the surplus-value.

The *time of production* is the time during which the capital is in the sphere of production. The principal part of the time of production is the *working period* during which the object being worked up undergoes directly the operation of labour. The working period depends on the nature of the given branch of production, the level of technique in the particular enterprise, and other conditions. For example, in a spinning mill not more than a few days are needed for a certain quantity of cotton to be transformed into yarn, ready to be sold, whereas in a locomotive-building works the completion of each locomotive requires the work of a large number of workers over a long period.

The time of production is usually longer than the working period. It includes as well those breaks in the work during which the object of labour is undergoing the operation of certain natural processes such as, e.g., the fermentation of wine, the tanning of skins, the growth of wheat, etc.

The time of circulation is the time during which capital is being transformed from the money form into the productive form and from that into the money form. The length of the time of circulation depends on the conditions under which the purchase of means of production and the sale of completed commodities are carried out, on the proximity of the market and on the level of development of the means of transport and communication.

Fixed and Circulating Capital

The various parts of productive capital do not circulate in the same way. The different ways in which separate parts of productive capital circulate derive from the different ways in which each of them transfers its value to the product. This underlies the division of capital into fixed and circulating.

By *fixed capital* is meant that part of productive capital which, though it fully takes part in production, transfers its value to the product not all at once but in parts, during the course of a series of periods of production. This is that part of capital which is spent on the erection of buildings and works and on the purchase of machinery and equipment.

The various elements of which fixed capital is composed usually serve the purpose of production over many years; they wear out to a certain degree every year and at last are found useless for further employment. This is what is meant by the *physical depreciation* of machinery and equipment.

Besides physical depreciation, the instruments of production also undergo a *moral depreciation*. A machine which has been in use for five or ten years may be still sound enough, but if during that period another, improved, more productive or cheaper machine of the same kind has been invented, this leads to the depreciation of the old machine. For this reason the capitalist is interested in completely using up his equipment in the shortest possible period of time. Hence the capitalists' endeavours to lengthen the working day, to intensify labour, and to introduce uninterrupted shift work in their enterprises.

By *circulating capital* is meant that part of productive capital the value of which during a single period of production is completely returned to the capitalist in the form of money when the commodities are realised. This is that part of capital which is spent on the purchase of labour-power, and also of raw material, fuel and auxiliary materials, i.e., those means of production which do not form part of fixed capital. The value of the raw material, fuel and auxiliary materials is fully transferred to the commodities during a single period of production, and the outlay on labour-power returns to the capitalist with an increase (an addition of surplus-value).

During the time that it takes for fixed capital to complete a single turnover, circulating capital manages to complete a number of turnovers.

When he sells his commodities, the capitalist receives a certain sum of money, which is made up of: (1) the value of that part of the fixed capital which has been transferred to the commodities in the process of production, (2) the value of the circulating capital, (3) the surplus-value. So as to keep production going, the capitalist uses once more part of the money he has received, corresponding to circulating capital, to hire workers and to buy raw material, fuel and auxiliary materials. The capitalist uses part of the money corresponding to the part of his fixed capital which has been transferred to the commodities, to replace depreciation in his machinery, machine-tools, buildings, etc., i.e., for amortisation.

Amortisation means the gradual replacement in money form of the value of fixed capital, through periodical deductions corresponding to the extent of its depreciation. Part of the amortisation deductions is spent on capital repairs, i.e., on partial replacement of worn-out equipment, tools, factory buildings, etc. But the bulk of the amortisation deductions is kept by the capitalists in money form (usually in the banks) so as to be able, when necessary, to buy new machinery in place of the old or to erect new buildings to replace those which have become unfit for further use.

Marxist political economy distinguishes between the division of capital into fixed and circulating and its division into constant and variable. Constant and variable capital differ from each other in the roles which they play in the process whereby the workers are exploited by the capitalists, whereas fixed and circulating capital differ in the manner in which they circulate.

These two ways of dividing capital may be shown in the following fashion:

Division according to role played in process of exploitation		Division according to manner of circulation
Constant capital	Factory buildings and outbuildings.	Fixed capital.
	Equipment, machinery.	
	Raw material, fuel, auxiliary materials.	Circulating capital.
Variable capital	Workers wages	

Bourgeois political economy recognises only the division of capital into fixed and circulating, since this way of dividing capital does not in itself show the role of labour-power in creating surplus-value, but, on the contrary, conceals the radical difference between the capitalist's expenditure on the hiring of labour-power and that on raw material, fuel, etc.

Annual rate of Surplus-Value. Ways of Accelerating the Turnover of Capital

The speed with which a given amount of variable capital is turned over has a bearing on the amount of surplus-value which a capitalist can extract from his workers during a year.

Let us take two capitals, in each of which the variable part

is 25,000 dollars, the rate of surplus-value being in each case 100 per cent. Let us suppose that one of them is turned over once in one year whereas the other is turned over twice. This means that the owner of the second capital, though he possesses the same amount of money, is able to hire and exploit during one year twice as many workers as the owner of the first. At the end of a year, therefore, the results shown by the two capitalists will differ. The first will receive 25,000 dollars of surplus-value, while the second will receive 50,000.

The rapidity of the turnover of capital also has a bearing correspondingly on the size of that part of the circulating capital which is laid out for buying raw material, fuel and auxiliary materials.

The annual rate of surplus-value means the proportion which the amount of surplus-value produced *per year* bears to the variable capital invested. In our example the annual rate of surplus-value, expressed as a percentage, would be, in the case of the first capitalist $\frac{25,000}{25,000} = 100$ per cent, and in that of the second capitalist $\frac{50,000}{25,000} = 200$ per cent. Hence it is clear that it is to the interest of capitalists to accelerate the turnover of capital, since this acceleration enables them to obtain the same amount of surplus-value with a smaller capital or with the same capital to obtain a larger sum of surplus-value.

Marx showed that by itself the acceleration of the circulation of capital does not create a single atom of new value. More rapid turnover of capital and more rapid realisation in money form of the surplus-value created in a given year only enables the capitalists to hire with one and the same quantity of capital a larger number of workers, whose labour creates a larger amount of surplus-value per year.

As we have seen, the time of turnover of capital consists of the time of production and time of circulation. The capitalist strives to shorten the duration of both of these.

The working period necessary for the production of commodities becomes shorter as the productive forces develop and technique grows. For example, present-day methods of smelting pig-iron and steel enable these processes to be completed many times faster, compared with the methods which were used 100–150 years ago. Noteworthy results have also been achieved

by progress in the organisation of production, e.g., the transition to serial or mass production.

The interruptions in the work which form part of the time of production over and above the working period are also shortened in many cases as technique advances. Thus, the process of tanning hides formerly took weeks, but at present, thanks to the use of the latest chemical methods, it takes only a few hours. In a number of branches of production extensive use is made of catalysts, i.e., substances which speed up the action of chemical processes.

In order to accelerate the turnover of capital employers resort also to lengthening the working day and intensifying labour. If with a 10-hour working day the working period lasts 24 days, then a lengthening of the working day to 12 hours shortens the working period to 20 days and correspondingly accelerates the turnover of capital. The same result is given by an intensification of labour, under which the worker expends in 60 minutes the same amount of energy as previously he expended, say, in 72 minutes.

Furthermore, the capitalists bring about an acceleration in the turnover of capital by shortening the time of circulation of capital. Such a shortening is made possible by the development of transport and of the postal and telegraph services, and by the improved organisation of trade. But reduction of the time of circulation is counteracted, first, by the extremely irrational distribution of production in the capitalist world, which necessitates the transport of commodities over vast distances, and, secondly, the sharpening of capitalist competition and growth of difficulties in finding markets.

The surplus-value created during a given period passes through circulation along with the circulating capital. The shorter the period of turnover of capital, the more quickly the surplus-value which the workers have created is realised in money form and the more quickly it can be used to extend production.

BRIEF CONCLUSIONS

(1) Each individual industrial capital goes through an uninterrupted movement in the form of a rotation comprising three phases. To these three phases correspond three forms of

industrial capital—money, productive and commodity—distinguished by their respective functions.

(2) The rotation of capital, taking place not as an isolated act but as a periodically renewed process, is called the turnover of capital. The period of turnover of capital means the sum of the time of production and the time of circulation. The principal part of the time of production is the working period.

(3) Each productive capital is divided into two parts, distinguished by the manner of their turnover: fixed capital and circulating capital. Fixed capital is the part of productive capital the value of which is transferred to commodities not all at once but little by little, during a series of periods of production. Circulating capital is that part of productive capital the value of which is in the course of a single period of production fully returned to the capitalist when the given commodities are sold.

(4) Acceleration of the turnover of capital enables the capitalists to complete during one year, with the same capital, a greater number of turnovers, and, therefore, to hire more workers, who produce a larger amount of surplus-value. The capitalists endeavour to speed up the turnover of capital both by improving technique and, especially, by stepping up the exploitation of the workers—through lengthening the working day and intensifying labour.

CHAPTER XI

AVERAGE PROFIT AND PRICE OF PRODUCTION

Capitalist Costs of Production and Profit. The Rate of Profit

The surplus-value created by the labour of the wage-workers in the process of production is the source from which are drawn the incomes of all the exploiting classes of capitalist society. Let us first examine the laws by force of which surplus-value assumes the form of the profit of those capitalists who have invested their capital in the production of commodities.

The value of a commodity produced in a capitalist enterprise break down into three parts: (1) the value of the constant capital (part of the value of the machinery and buildings, the value of the raw material, fuel, etc.); (2) the value of the variable capital; and (3) surplus-value. The magnitude of a commodity's value is determined by the amount of socially-necessary labour required for producing it. But the capitalist does not expend his own labour in producing the commodity, he lays out his capital for this purpose.

The *capitalist costs of production* of a commodity consist of the outlay of constant and variable capital ($c+v$), i.e., of expenditure on means of production and on workers' wages. The cost of the commodity to the capitalist is measured by the outlay of *capital*, its cost to society is measured by the outlay of *labour*. Therefore the capitalist costs of production of a commodity are less than its value, or the real costs of its production ($c+v+s$). The difference between value, or real costs of production, and capitalist costs of production is equal to the surplus-value (s) which the capitalist appropriates without compensation.

When the capitalist sells a commodity which has been produced in his enterprise, surplus-value makes its appearance as a definite surplus over and above the capitalist costs of production. The capitalist sets this surplus, in determining the profitability of the enterprise, against the capital which he has advanced, i.e., all the capital invested in production. Surplus-value, placed in relation to total capital, take the form of profit.

In so far as surplus-value is compared not with variable capital only but with capital as a whole—the difference between constant capital, spent on purchasing means of production, and variable capital, spent on hiring labour-power, is hidden. As a result the deceptive appearance is created that profit is engendered by capital itself. In reality, however, the source of profit is surplus-value, created only by the workers, by labour-power, the value of which is embodied in variable capital. *Profit* is surplus-value compared with the total capital invested in production and appearing outwardly to be engendered by the capital. Owing to this peculiarity of profit Marx calls it the *transmuted form* of surplus-value.

In similar fashion as the form of wages conceals the exploitation of wage-labour, creating the false impression that all labour is paid for, so also the form of profit in its turn hides from view the relationship of exploitation, creating a misleading appearance of profit being created by capital. Thus the forms assumed by capitalist production relations obscure and mask their true nature.

The degree of profitability of a capitalist enterprise for its owner is determined by the rate of profit. The *rate of profit* is the proportion between the surplus-value and the total capital advanced, expressed as a percentage. For example, if the total capital advanced is 200,000 dollars, and the year's profit amounts to 40,000 dollars, then the rate of profit $= \frac{40{,}000}{200{,}000} \times 100$ or 20 per cent.

Inasmuch as the total capital advanced is greater than the variable capital, the rate of profit $\left(\frac{s}{c+v}\right)$ is less than the rate of surplus-value $\left(\frac{s}{v}\right)$. Suppose, in our example, that the capital of 200,000 dollars consists of 160,000 dollars of constant capital and 40,000 dollars of variable capital, then the rate of surplus-value is $\frac{40{,}000}{40{,}000} \times 100 = 100$ per cent, but the rate of profit is 20 per cent, or one-fifth of the rate of surplus-value.

The rate of profit depends first of all on the rate of surplus-value. The higher the rate of surplus-value the higher, other things being equal, will be the rate of profit. All the factors which increase the rate of surplus-value, i.e., which raise the

degree of exploitation of labour by capital (lengthening the working day, raising the intensity and productivity of labour, etc.) also increase the rate of profit.

Further, the rate of profit depends on the organic composition of capital. As we know, the organic composition of capital is the proportion between constant and variable capital. The lower the organic composition of capital, i.e., the larger the relative weight in the capital of its variable part (the value of labour-power), the larger, with the same rate of surplus-value, will the rate of profit be. And, conversely, the higher the organic composition of capital, the lower the rate of profit.

One of the factors which affect the rate of profit is economy in the use of constant capital. Finally, the rapidity of turnover of capital affects the rate of profit. The more rapid the turnover of capital, the higher the annual rate of profit, which represents the relation between the surplus-value produced in the year to the total capital advanced. And, conversely, a slowing down in the turnover of capital leads to a lowering of the annual rate of profit.

Formation of the Average Rate of Profit and Transformation of the Value of Commodities into their Price of Production

Under capitalism the distribution of capital among various branches of production and the development of technique take place in a ferocious competitive struggle.

Competition within a particular branch of production must be distinguished from competition between branches.

Competition within a branch means competition among enterprises in one and the same line of production, all producing commodities of the same kind, each of which tries to secure more advantageous disposal of its commodities and to obtain additional profit. The separate enterprises concerned work in varying conditions and differ one from another in their scale and in their level of technical equipment and organisation of production. Consequently the individual values of the commodities produced in the different enterprises are not the same. But competition between enterprises in one and the same branch of production leads to the price of commodities being determined not by their individual values but by the social value of these commodities. And the magnitude of this social value of

the commodities concerned, as has been mentioned, depends on the average conditions of production in the particular branch.

As a result of the fact that the price of commodities is determined by their social value, those enterprises gain in which the technique of production and the productivity of labour is higher than the average level in the branch concerned and, consequently, where the individual value of the commodities produced is lower than the social value. These enterprises receive an additional profit, or *super-profit*, which is a form of the extra surplus-value which we have examined earlier (in Chapter VII). Thus, as a result of competition within a particular branch of production varying rates of profit are formed in different enterprises of the branch in question. Competition between different enterprises of one and the same branch leads to a squeezing-out of the small and medium enterprises by the large-scale ones. In order to hold their ground in the competitive struggle, those capitalists who own backward enterprises endeavour to introduce in them the technical improvements adopted by their competitors who own technically more developed enterprises. As a result a heightening of the organic composition of capital takes place in the branch as a whole, the super-profit which the capitalists who own the technically more advanced enterprises have been receiving now disappears, and a general lowering of the rate of profit takes place. This obliges the capitalists again to introduce technical improvements. Thus, in the process of competition within a particular branch, there takes place the development of technique and the growth of the productive forces.

Competition between branches means competition between the capitalists of different branches of production over the most profitable way of investing capital. The capitals invested in different branches of production have varying organic compositions. Since surplus-value is created only by the labour of wage-workers, in enterprises in those branches of production where a low organic composition of capital prevails a capital of the same size produces a relatively large mass of surplus-value. In enterprises with a higher organic composition of capital, a relatively smaller amount of surplus-value is produced. The competitive struggle between capitalists of different

branches leads, however, to the amount of profit on capitals of equal size becoming equalised.

Let us suppose that in society there are three branches of production—leatherworking, textiles and engineering—with capitals of the same size but differing in organic composition. The amount of the capital advanced in each of these branches is 100 units (millions of pounds sterling, say). The capital of the leatherworking branch consists of 70 units of constant capital and 30 units of variable, that of the textile branch consists of 80 units of constant and 20 of variable, and that of the engineering branch consists of 90 units of constant and 10 units of variable. Let the rate of surplus-value in all three branches be the same and be 100 per cent. So, then, in the leatherworking branch 30 units of surplus-value will be produced, in the textile branch 20 and in the engineering branch 10. The value of the commodities in the first branch will be equal to 130, in the second to 120, in the third to 110, and in all three branches together—360 units.

If the commodities are sold at their values, then in the leatherworking branch the rate of profit will be 30 per cent, in the textile branch 20 per cent and in the engineering branch 10 per cent. Such a distribution of profit will be quite advantageous to the capitalists in the leatherworking branch of production, but disadvantageous to the capitalists in the engineering branch. Under these conditions, the entrepreneurs in the engineering branch will seek more advantageous application for their capitals. This application for their capitals they will find in the leatherworking branch. A flow of capital from the engineering branch to the leatherworking branch will take place. In consequence, the quantities of commodities produced in the leatherworking branch will grow, competition will inevitably become more acute and will oblige the entrepreneurs in this branch to lower the prices of their commodities, which will lead also to a reduction in the rate of profit. Conversely, in the engineering branch the quantities of commodities produced will fall and the changed relationship between supply and demand will enable the entrepreneurs to raise the prices of their commodities, as a result of which the rate of profit will also rise.

The fall in prices in the leatherworking branch and the rise in prices in the engineering branch will continue until the rate of profit in all three branches becomes approximately the same.

This will happen when the commodities produced by all three branches are sold at 120 units $\frac{(130+120+110)}{3}$. The average profit of each of the branches will then be 20 units. The *average profit* is an equal profit on capitals of the same magnitude invested in different branches of production.

And so, competition between branches leads to the differing rates of profit existing in different branches of capitalist production being *equalised* to a general (or average) rate of profit. This equalisation takes place through a flow of capital (and consequently, also of labour) from some branches to others.

Through the formation of an average rate of profit the capitalists of some branches (in our example, leatherworking) are deprived of part of the surplus-value created by their workers. On the other hand, the capitalists in other branches (in our example, engineering) realise extra surplus-value. This means that the first sell their commodities at prices below their value, while the second sell them at prices above their value. The price of a commodity in any of the branches is now composed of the cost of production (100 units) and the average profit (20 units).

The price which equals the cost of production of a commodity plus the average profit is the *price of production*. In the separate enterprises of a particular branch, as a result of the differences in the conditions of production, there exists different, individual prices of production which are determined by the individual costs of production plus the average profit. But the commodities are realised at an averaged-out, uniform price of production.

The process of formation of an average rate of profit and price of production may be depicted in the form of the following table:

Branches of production	*Constant capital*	*Variable capital*	*Surplus-value*	*Value of commodities*	*Average rate of profit (%)*	*Price of production of commodities*	*Variation of price of production from value*
Leather working	70	30	30	130	20	120	−10
Textile	80	20	20	120	20	120	Equal
Engineering	90	10	10	110	20	120	+10
Total	240	60	60	360	20	360	

The commodities produced in each of the three branches are sold at 120 units (millions of dollars, say). Yet the value of the commodities in the leatherworking branch is 130 units, in the textile branch 120 and in the engineering branch 110. In contrast to what happens under simple commodity production, under capitalism commodities are sold not at prices which correspond to their value but at prices which correspond to their prices of production.

The transformation of value into price of production is a result of the historical development of capitalist production. Under conditions of simple commodity production the market price of commodities in general correspond to their values. In the first stages of capitalism's development significant differences were still retained between the rates of profit in different branches of production, since the separate branches were as yet insufficiently interconnected, and craft and other restrictions existed which hindered the free flow of capital from some branches to others. The process of forming the average rate of profit and transforming value into price of production was brought to completion only with the triumph of capitalist machine industry. With the transformation of value into price of production the basic economic law of capitalism, the law of surplus-value, becomes concrete and finds expression in the form of the average rate of profit.

Bourgeois economists try to refute Marx's labour theory of value by referring to the fact that in particular branches the prices of production do not coincide with the values of the commodities. In reality, however, the law of value fully retains its force in capitalist conditions, for the price of production is merely a *modified form of value*.

This is shown by the following circumstances:

First, some entrepreneurs sell their commodities above their value, others below, but the capitalists as a whole, taken together, realise the full amount of the value of their commodities. On the scale of society as a whole the sum total of prices of production is equal to the sum total of the values of all commodities.

Second, the sum total of the profit received by the whole class of capitalists is equal to the sum total of the surplus-value produced by all the unpaid labour of the proletariat. The magnitude of the average rate of profit depends on the magnitude of the surplus-value produced in society.

Third, a reduction in the value of commodities leads to a reduction in their prices of production, an increase in the value of commodities leads to the raising of their prices of production.

Thus, the *law of the average rate of profit* operates in capitalist society; it means that the different rates of profit which depend on the differences in the organic composition of capital in different branches of production are levelled out, as a result of competition, to a common (average) rate of profit. The law of the average rate of profit, like all the laws of the capitalist mode of production, manifests itself spontaneously through innumerable variations and fluctuations. In the struggle for the most profitable application of capital a ferocious competitive struggle is waged between the capitalists. They endeavour to place their capital in those branches of industry which promise them the largest profits. In the hunt for high profits a flow of capital from one branch to another takes place, and as a result of this an average rate of profit is established.

Thus, the distribution of labour and means of production between the different branches of capitalist production takes place on the basis of the law of the average rate of profit. This means that in a developed capitalist society the law of value operates as the spontaneous regulator of production, working through the price of production.

The price of production is that average magnitude around which fluctuate, in the last analysis, the market prices of commodities, i.e., the prices at which commodities are actually bought and sold on the market.

The equalisation of the rate of profit and the transformation of value into price of production still further disguise the relationship of exploitation, still further conceal the true source of the enrichment of the capitalists.

> "The actual difference of magnitude between profit and surplus-value . . . in the various spheres of production now conceals completely the true nature and origin of profit, not only for the capitalist, who has a special interest in deceiving himself on this score, but also for the labourer. By the transformation of values into prices of production, the basis of the determination of value is itself removed from direct observation." (Marx, *Capital*, Kerr edition, vol. III, p. 198.)

In reality the formation of an average rate of profit means a redistribution of surplus-value among the capitalists in different branches of production. Part of the surplus-value created in branches with a low organic composition of capital is appropriated by the capitalists in the branches with a high composition of capital. It follows that the workers are exploited not only by those capitalists for whom they work but by the entire class of capitalists as a whole. The entire capitalist class has an interest in raising the degree to which the workers are exploited, since this leads to a rise in the average rate of profit. As Marx showed, the average rate of profit is dependent on the degree to which the whole of labour is exploited by the whole of capital.

The law of the average rate of profit expresses, on the one hand, the contradictions and the competitive struggle among the industrial capitalists over the sharing-out of surplus-value, and on the other hand, the profound antagonism between two mutually hostile classes, the bourgeoisie and the proletariat. It testifies to the fact that in capitalist society the bourgeoisie as a class opposes the proletariat as a whole, that a struggle for particular interests of the workers or of particular groups of workers, a struggle against particular capitalists, cannot lead to a radical change in the position of the working class. The working class can free itself from the yoke of capital only by overthrowing the bourgeoisie as a class, only by abolishing the system of capitalist exploitation itself.

Tendency of the Rate of Profit to Fall

As capitalism develops, the organic composition of capital steadily rises. Each separate entrepreneur, more and more replacing workers by machines, strives to cheapen production, extend the market for his commodities and win super-profit for himself. But when the technical attainments of particular enterprises become widespread, a rise in the organic composition of capital takes place in the majority of enterprises, which leads to a fall in the general rate of profit.

A more rapid growth of fixed capital compared with circulating capital acts in the same direction, leading as it does to a slowing down in the turnover of the whole capital.

Each capitalist, in raising the level of technique, endeavours

to obtain the largest possible profit, but the result of the activities of all the capitalists directed to achieving this purpose is something which none of them wanted—a lowering of the general rate of profit.

Let us take our previous example. The sum-total of all the capitals, amounting to 300 units, is made up of 240 units of constant and 60 of variable capital. With the rate of surplus-value at 100 per cent, 60 units of surplus-value are produced, and the rate of profit is 20 per cent. Let us suppose that during twenty years the total amount of capital grows from 300 to 500 units. At the same time, as a result of the progress of technique, the organic composition of capital grows. Consequently, the 500 units are divided into 425 units of constant and 75 units of variable capital. In this case, given the previous rate of surplus-value, 75 units of surplus-value will be created. The rate of profit will now be $\frac{75}{500} \times 100 = 15$ per cent. The amount of profit has grown from 60 to 75 units, but the rate of profit has fallen from 20 per cent to 15 per cent.

So, then, a rise in the organic composition of capital leads to a lowering of the average rate of profit. There are a number of factors, however, which counteract the lowering of the rate of profit.

In the first place, the exploitation of the working class grows. The development of the productive forces of capitalism, which expresses itself in the increasing organic composition of capital, leads at the same time to a growth in the rate of surplus-value. Owing to this, the lowering of the rate of profit takes place more slowly than it would have done had the rate of surplus-value remained the same.

Secondly, technical progress, raising the organic composition of capital, gives rise to unemployment, which presses upon the labour market. This enables the employers to reduce wages, fixing them well below the value of labour-power.

Thirdly, as the productivity of labour grows, there is a fall in the value of the means of production—machinery, equipment, raw material, etc. This slows down the growth in the organic composition of capital, and, consequently, counteracts the lowering of the rate of profit.

Let us suppose that an employer compels his workers, who formerly were operating five looms, to operate twenty. As a result of the growth in the productivity of labour in the manufacture of looms, however, the value of looms has fallen by half. Consequently,

twenty looms are now worth not four times as much as five but only twice as much. Therefore the share of constant capital per worker grows not fourfold but only twofold.

Fourthly, the lowering of the average rate of profit is counteracted by economy in constant capital effected by the capitalist at the expense of the health and lives of his workers. In order to enlarge their profits employers compel their workers to do their work in workshops which are too small and without adequate ventilation, and they economise on the devices which are needed for safety. In consequence of this niggardliness on the part of the capitalists, the workers' health is undermined, an enormous number of accidents happen, and the death rate rises among the working population.

Fifthly, the fall in the rate of profit is held up because of the non-equivalent exchange which exists in the sphere of foreign trade, when the entrepreneurs of advanced capitalist countries, through selling their commodities in colonial countries, obtain super-profit.

All these counteracting factors do not abolish but merely weaken the lowering of the rate of profit and convert it into a tendency. Thus, the raising of the organic composition of capital has as its inevitable consequence *the law of the tendency of the general (or average) rate of profit to fall.*

The fall in the rate of profit does not mean a reduction in the *amount* of profit, i.e., in the total volume of surplus-value produced by the working class. On the contrary, *the amount of profit grows* both in connection with the rise in the rate of surplus-value and as a result of the growth in the number of workers exploited by capital. For example, in the U.S.A. the total of industrial profit, calculated from the official data of the Census of Industry, amounted in 1859 to 316 million dollars, in 1869 to 516 million, in 1879 to 660 million, in 1889 to 1,513 million, and in 1899 to 2,245 million.

The capitalists try by intensifying to the utmost the exploitation of the workers to weaken the tendency of the rate of profit to fall. This leads to the contradictions between proletariat and bourgeoisie becoming more acute.

The law of the tendency of the rate of profit to fall intensifies the struggle within the bourgeoisie itself over the distribution of the total mass of profit.

In their drive for higher profits the capitalists invest their

capital in backward countries, where working hands are cheaper and the organic composition of capital is lower than in countries with highly-developed industry: and they begin to exploit the peoples of these countries intensively. This leads to a sharpening of the contradictions between the developed capitalist countries and the backward ones, between metropolitan countries and colonies.

Further, in order to keep prices at a high level, entrepreneurs join together in associations of various kinds. By this means they manage to secure high profits.

Finally, striving to make up for the fall in the rate of profit by increasing its amount, the capitalists extend the scale of production far beyond the limits of demand effective in terms of money. In this connection, the contradictions caused by the tendency of the rate of profit to fall make themselves felt especially sharply during crises.

The law of the tendency of the rate of profit to fall is one of the clearest indications of the historical limitations of the capitalist mode of production. In sharpening the contradictions of capitalism, this law shows vividly that at a certain stage the bourgeois system becomes an obstacle to the further development of the productive forces.

BRIEF CONCLUSIONS

(1) Profit is surplus-value taken in comparison with the total capital invested in production and appearing from outside as though produced by this capital. The rate of profit means the relation of the amount of surplus-value produced to the total capital, expressed as a percentage.

(2) Competition within a branch of production leads to the prices of identical commodities being determined not by the individual but by the social value of these commodities. Competition between branches leads to a flow of capital from one branch to another, to the formation of an average rate of profit throughout the field of capitalist production.

On the basis of the law of the average rate of profit there takes place a distribution of labour and means of production among the various branches of capitalist economy.

(3) As a result of the equalisation of the rate of profit

commodities are sold not at their values but as their prices of production. The price of production is the price which equals the cost of producing the commodity plus the average profit. The price of production is a modified form of the value. The sum-total of the prices of production is equal to the sum-total of the values of all commodities; with a change in the value of commodities their price of production also changes.

(4) As capitalism develops, in proportion to the growth in the organic composition of capital the average rate of profit shows a tendency to fall. At the same time the amount of profit steadily grows. The law of the tendency of the average rate of profit to fall leads to the contradictions of capitalism becoming acute.

CHAPTER XII

MERCHANT CAPITAL AND MERCHANTS' PROFIT

Merchants' Profit and its Source

Merchant and money-lenders' capital preceded industrial capital in history. Under the capitalist mode of production these forms of capital lose their previous independent role; their functions are reduced to serving industrial capital. Consequently, under capitalism, merchant capital and interest-bearing capital are essentially different from what they were in their pre-capitalist forms.

Industrial capital, as already stated, assumes in the course of its rotation three successive forms: money capital, industrial capital and commodity capital, which have different functions. These functional forms of industrial capital come to stand apart from each other at a certain level of its development. From industrial capital employed in production there is separated off merchant capital, in the shape of the capital of the merchant, and loan capital in the shape of bank capital. Within the capitalist class three groups are formed, all sharing in the appropriation of surplus-value: manufacturers, merchants and bankers.

Merchant capital is capital employed in the sphere of commodity circulation. In this sphere no surplus-value is created. Whence, then, does the merchant's profit arise? If the capitalist manufacturer himself were to undertake the realisation of his commodities, he would have to spend part of his capital on equipping commercial establishments, hiring salesmen, and other expenses connected with trade. In order to do this he would have to increase the amount of capital advanced or else, with the same amount of capital advanced, to reduce the scale of production. And in either case his profit would fall. The manufacturer prefers to sell his commodities to a middleman—a merchant capitalist, who as his special task undertakes the selling of goods, the forwarding of them to the consumer. This specialisation of merchant capital in the function of commodity

circulation enables the time and expense connected with circulation to be reduced. Merchant capital, in serving the process of realisation of the commodities of many industrial capitalists, thereby reduces the part of social capital which is diverted from production to the circulation process. Thanks to having transferred the task of realising his commodities to the merchant, the industrial capitalist speeds up the turnover of his capital and this leads to an increase in his profits. This enables the manufacturer in his own interests to surrender to the merchant a certain share of the surplus-value, which constitutes the merchant capitalist's profit. *Merchants' profit* is a part of the surplus-value, which the manufacturer surrenders to the merchant in return for realising his commodities.

The realisation of commodities is effected by merchant capital by means of exploiting commercial employees. The labour of these wage-workers who are engaged in realising commodities, i.e., in transforming commodities into money and money into commodities, creates neither value nor surplus-value, but it enables the merchant capitalist to appropriate part of the surplus-value created in production.

> "Just as the unpaid labour of the labourer of the productive capital creates surplus-value for it in a direct way, so the unpaid labour of the commercial wage-workers secures a share of this surplus-value for the merchant's capital." (Marx, *Capital*, Kerr edition, vol. III, p. 346.)

The working day of commercial employees, like that of workers engaged in production, breaks down into two parts: during the necessary time they effect the realisation of that part of the surplus-value created in the sphere of production which replaces the capitalists' outlay on the hiring of their labour-power, and during the surplus time they work gratis for the capitalists, enabling them to appropriate merchants' profit. Consequently the workers in the sphere of trade are subjected to exploitation on the part of the merchant capitalists just as the workers who produce commodities are subjected to exploitation by the manufacturers.

If he is to realise a certain mass of commodities, the merchant must advance for a certain period a capital of appropriate amount. He tries to obtain as large profits as possible on this capital. If the rate of merchants' profit turns out to be less

than the average rate of profit, the business of merchant becomes unprofitable, and merchants transfer their capital to industry, agriculture or some other branch of the economy. Conversely, a high rate of merchants' profit attracts industrial capital into commerce. Competition between the capitalists leads to the level of merchants' profit being determined by the average rate of profit, the average profit being formed in relation to all capital, including that which operates in the sphere of circulation.

Thus, not only the capital of industrial capitalists but also merchant capital takes part in the process of evening-out the rate of profit, as a result of which both industrial and merchant capitalists receive the average rate of profit in proportion to the amount of capital expended by them. It follows that the industrial capitalists do not realise all the profit created in industry but only that part of it which constitutes the average profit on the capital which they have invested. The merchant capitalists sell commodities at their price of production, which includes the average profit both of the industrialist and of the merchant. Because of this it is possible for them to realise the average profit on the capital they have invested out of the difference between their buying and selling prices.

In the form of merchants' profit the true source of the increase of capital is still more closely hidden than it is in the form of industrial profit. The merchant's capital plays no part in production. The formula for the movement of merchant capital is: $M-C-M$. Here the stage of productive capital is missing and the link with production outwardly seems broken. A misleading appearance is created that profit is arising from trade itself by way of additions to the price and the selling of commodities above their price of production. What in fact happens, as has been shown, is the opposite: the manufacturer sells the commodity to the merchant below the price of production, surrendering to him part of his profit.

Merchant capital not only takes part in realising the surplus-value created in production, it also subjects the working people to additional exploitation as consumers. Striving to obtain additional profit, the merchant capitalists inflate prices by all means available, extensively practise the giving of short weight and short measure to customers, and sell poor-quality and adulterated goods.

One of the sources of merchants' profit is the exploitation of

petty commodity producers by merchant capital. Merchant capitalists compel peasants and craftsmen to sell them the products of their labours at low prices and at the same time the latter buy from the merchant capitalists tools, equipment, raw material, etc., at high prices. The share taken by commercial middlemen of the retail price of agricultural products in the U.S.A. rose between 1913 and 1934 from 54 per cent to 63 per cent.

All this leads to enhanced impoverishment of the working people and still further sharpens the contradictions of capitalism.

Costs of Circulation

The process of capitalist circulation of commodities demands a certain outlay for expenses. These expenses, connected with the maintenance of the sphere of circulation, are the *costs of circulation.*

Two kinds of capitalist costs incurred in the sphere of trade must be distinguished one from the other: first, net costs of circulation, which are directly connected with the processes of purchase and sale of goods and derive from the peculiarities of the capitalist system; and, second, costs arising from the extension of the production-process into the sphere of circulation.

The predominant and continually growing share of the costs of circulation in capitalist trade is taken by the net costs. To the net costs of circulation belong the expenses connected with the transformation of commodities into money and money into commodities. To this category belong the expenses arising from competition and speculation, from advertising, the greater part of the expenditure on the wages of commercial employees, on the keeping of accounts, correspondence, the upkeep of commercial offices, etc. Net costs of circulation, as Marx showed, do not add one jot of value to the commodity. They constitute a direct deduction from the total sum of values produced in society, and are covered by the capitalists from the total mass of surplus-value produced by the labour of the working class. The increase in the net costs of circulation testifies to the growth of waste under capitalism.

In the U.S.A. recorded expenses on advertisement alone amounted in 1934 to 1·6 milliard dollars, in 1940 to 2·1 milliard and in 1953 to 7·8 milliard.

With the development of capitalism and the growing difficulties of realising commodities, a colossal trading apparatus with manifold links is built up. Before they reach the hands of the consumer, commodities pass through the hands of a whole army of merchants, speculators, retailers and agents.

To the category of costs connected with the extension of the production process into the sphere of circulation belong expenses which are socially necessary and do not depend on the peculiarities of the capitalist system—on the finishing, transport and packing of goods. Every product is available to the consumer only when it has been delivered to him. The costs of finishing, transport and packing of goods correspondingly increase the cost of production of commodities. The labour which the workers expend in this work transfers to the commodities the value of the means of production expended and adds new value to the value of the commodity.

The anarchy of capitalist production and crises, the competitive struggle and speculation, bring about the piling up of extraordinary stocks of commodities and lengthen and distort their channels of movement, which leads to huge unproductive expenditure being incurred. In the overwhelming majority of cases capitalist advertisement is connected to a greater or less extent with swindling the customer and gives rise to superfluous and expensive packing of goods. This means that an ever larger part of the expenses for transport, storage and packing of commodities are transformed into net costs caused by capitalist competition and anarchy of production. The rise in the level of the costs of circulation is one of the indices of intensified parasitism in bourgeois society. The cost of capitalist trade weigh heavily upon the working people as consumers.

In the U.S.A. costs of circulation amounted in 1929 to 31 per cent and in 1935 to 32·8 per cent of the total amount of retail trade. In the capitalist countries of Europe the costs of circulation amount to approximately a third of the total retail turnover.

Forms of Capitalist Trade. Commodity Exchanges

As capitalist production and circulation develop, the forms of trade, wholesale and retail, also develop. *Wholesale trade* is trade between manufacturers and trading concerns, while *retail trade* is the sale of commodities directly to the population.

In trade, as in industry, *concentration* and *centralisation of capital* goes on. Small and medium capitalists are squeezed out by large-scale ones both in wholesale and in retail trade. In retail trade the concentration of capital takes place principally in the form of the setting-up of large stores, both universal and specialised. Universal stores carry on trade in all kinds of goods, specialised shops trade only in one kind of goods, e.g., footwear, or clothing.

The production of identical commodities permits merchants to carry on wholesale trade by means of samples. Mass homogeneous goods such as cotton, flax-fibre, metals both ferrous and non-ferrous, rubber, grain, sugar, coffee, etc., are bought and sold in accordance with fixed standards and samples on the commodity exchanges.

A *commodity exchange* is a special kind of market, where trade in uniform commodities in bulk is carried on and the supply of and demand for these commodities is concentrated on the scale of entire countries—often even on the scale of the capitalist world market.

The commodities which are the subject of the deals made between capitalists on the exchanges do not pass immediately from hand to hand. The deals are usually made for completion at the end of a period: the seller undertakes to supply the buyer with a certain quantity of the commodity at a stated time. For instance, deals are concluded in spring for supplying cotton from the next harvest, when this cotton has not yet been sown. In concluding these exchange deals the seller reckons that the price of the commodity in question will have fallen by the time stated, so that he will benefit by the difference in price; the buyer reckons that prices will rise. Often the sellers on the exchange do not possess the goods they sell and the buyers do not want the goods they buy. Thus commodity exchanges are places where *speculative trade* is carried on. The speculators buy and sell the ownership of goods with which they have not the slightest connection. Speculation is inseparably linked with the whole structure of capitalist trade, since this trade has for its aim not the satisfaction of society's wants but the extraction of profit. It is the large-scale capitalists, mostly, who make big money in speculative trade. It leads to the ruin of a considerable section of the small and medium entrepreneurs.

In bourgeois countries trade is often conducted on credit or on the instalment plan. This type of trade frequently leads to the ordinary consumer being obliged to pay his debts with his goods and chattels, being unable to settle with his creditors in

due time. Trade on a credit basis is often used by the capitalists as a means of disposing of inferior goods which are otherwise unsaleable.

Foreign Trade

As mentioned above, the transition to capitalism was connected with the creation of a world market. Lenin said that capitalism resulted from

> "widely developed commodity *circulation* which goes beyond the boundaries of the State. For this reason one cannot imagine a capitalist nation without foreign trade; and there is no such nation." (Lenin, "Development of Capitalism in Russia", *Works*, Russian edition, vol. III, p. 43.)

In the course of the development of commodity circulation, going beyond the limits of national markets, capitalist *foreign trade* is extended. The extension of world trade in itself expresses the development of the international division of labour, connected with the growth of the productive forces. For the capitalists, however, foreign trade serves as a means of increasing profits. In their hunt for profit the capitalists are constantly seeking new markets for their goods and sources of raw material. The limitations of the home market resulting from the impoverishment of the masses and the seizure of internal sources of raw material by large-scale capitalists intensifies their striving to establish supremacy in foreign markets.

Foreign trade was really extensively developed only in the capitalist epoch. During one hundred years, from 1800 to 1900, the turnover of world trade grew more than twelve-and-a-half-fold, from 1·5 milliard dollars to 18·9 milliard dollars. During the following three decades it grew more than three-and-a-half-fold and in 1929 attained the figure of 68·6 milliard dollars.

Foreign trade is a source of additional profit for the capitalists of the more developed capitalist countries, since manufactured articles are sold in backward countries at relatively higher prices, while raw material can be purchased there at much lower prices. Foreign trade serves as one of the means of economic enslavement of the backward countries by the developed bourgeois countries, and of the extension of the spheres of influence of the capitalist powers.

Thus, for example, the English East India Company plundered India for more than 250 years (1600–1858). As a result of the rapacious exploitation of the local inhabitants by the East India Company many provinces of India were transformed into wildernesses; the fields were not cultivated, the land became overgrown with scrub and the population died off.

Foreign trade is made up of *export*, i.e., the sending out of commodities, and *import*, i.e., the bringing in of commodities. The relationship between the total of the prices of the commodities exported by a particular country and the total of the prices of the commodities imported by it during a certain period, e.g., a year, constitutes the *balance of trade*. If the export side exceeds the import side, the balance of trade is *active*, while if the opposite is the case it is *passive*.

A country which has a passive balance of trade must cover its deficit by drawing upon such sources as stocks of gold, income from transporting the products of other countries, income from capital investments in other countries, and finally, by means of foreign loans.

The trade balance does not show all the forms of economic relations which exist between countries. A fuller expression of these relations is given by the balance of payments. The *balance of payments* is the relationship between the total of all payments received by a particular country from other countries and the total of all payments which this country makes to other countries.

The nature of the economic connections between countries also determines the foreign-trade policy of capitalist States. In the epoch of pre-monopoly capitalism two main types of trade policy took shape: the policy of *free trade* and the policy of protecting native industry (*protectionism*), which was carried out mainly by introducing high customs dues on foreign goods.

BRIEF CONCLUSIONS

(1) Merchant capital serves the circulation of industrial capital. Merchants' profit is part of surplus-value, which the manufacturer yields to the merchant.

(2) The exploitation by merchant capital of its wage-workers enables it to appropriate part of the surplus-value created in production. Merchant capital exploits the small

commodity producers through non-equivalent exchange. The workers and other sections of the working people are exploited by merchant capital as purchasers of consumer goods.

(3) The outlay connected with maintaining the sphere of circulation constitutes the costs of circulation. The costs of circulation are made up of net costs, directly connected with the buying and selling of commodities, and costs which arise from the continuation of the production-process into the sphere of circulation. As capitalist trade develops, unproductive expenditure in the sphere of circulation grows.

(4) Foreign trade arises from an international division of labour. Under capitalism it serves as one of the methods of economic enslavement of industrially less developed countries by more developed industrial capitalist powers.

CHAPTER XIII

LOAN CAPITAL AND LOAN INTEREST. CIRCULATION OF MONEY

Loan Capital

Just as commodity capital becomes separated off in the form of merchant capital, money capital becomes separated off as loan capital.

In the process of the turnover of capital the industrial capitalist finds himself from time to time with spare capital for which he can discover no application in his business. For instance, when a capitalist accumulates a depreciation fund intended for restoring the worn-out parts of his fixed capital, he temporarily assembles spare sums of money. These sums will be spent on purchasing new equipment and machinery only after the lapse of several years. If the manufacturer sells finished products every month but buys raw material only once in six months, he has spare money at his disposal for five months. This is inactive capital, i.e., capital which is not bringing in any profit.

At other times the capitalist finds himself in need of money, e.g., when, though he has not yet managed to dispose of his finished goods, he needs to buy raw material. At the very moment when one entrepreneur has a temporary surplus of money capital, another has need of it. In their hunt for profit the capitalists strive to ensure that each particle of their capital brings them in income. The capitalist lets out his spare money on *loan*, i.e., for temporary use by other capitalists.

Loan capital is money capital which its owner allows another capitalist to use for a period in return for a definite consideration. The distinctive feature of loan capital is that it is used in production not by the capitalist who owns it but by others. When he is able to borrow money, an industrial capitalist is freed from the necessity of keeping substantial reserves of money in an inactive state. A loan of money enables a manufacturer to extend production and increase the number of workers he employs, and, consequently, to increase the amount of surplus-value he obtains.

As consideration for the money capital of which he is allowed to dispose, the manufacturer pays the owner of this capital a certain sum which is called interest. *Interest* is the part of his profit which the industrial capitalist yields to the lending capitalist in return for being granted a loan by him. Loan capital is capital which brings in interest. The source of interest is surplus-value.

The movement of loan capital is wholly based on the movement of industrial capital. Capital granted on loan is used in production, for the purpose of increasing surplus-value. Loan capital, therefore, like all capital generally, expresses first and foremost the production-relations between the capitalists and the workers exploited by them. At the same time loan capital in particular reflects the relations between two groups of capitalists: on one side the money capitalists and on the other the functioning capitalists (manufacturers and merchants).

The formula of motion of loan capital is: $M - M'$. Here, not only the stage of productive capital but also of merchant capital is missing. The impression is created that the source of income is not surplus-value, produced by exploiting the workers in the sphere of production, but money by itself. The fact that loan capital brings in income in the form of interest appears to be as natural a property of money as the bearing of fruit is of a fruit tree. Here the fetishism characteristic of capitalist relations attains its farthest limit.

The owner of money capital places his capital for a period at the disposal of the industrial capitalist, who uses it in production in order to obtain surplus-value. Thus there arises a *separation between the ownership of capital and its employment in production*, a separation between capital as property and capital as function.

Interest and Profit of Enterprise. The Rate of Interest and its Tendency to Fall

The manufacturer or merchant surrenders part of his profit to the money capitalist in the form of interest. Thus, the average profit is broken down into two parts. The part which remains with the industrialist or merchant, i.e., the functioning capitalists, is called the *profit of enterprise*.

Just as the form assumed by interest gives rise to a misleading impression that interest is a natural product of capital-ownership, so the form assumed by profit of enterprise gives rise to the illusion that this income is the remuneration of the functioning capitalist for

managing the enterprise and supervising the labour of his workers. In fact, profit of enterprise, like interest, has no connection with work in the management of production; it is part of the surplus-value which the capitalists appropriate without compensation.

The proportion in which the average profit is divided between profit of enterprise and interest depends on the balance of supply and demand of loan capital, the state of the market for money capital. The higher the demand for money capital, the higher, other things being equal, will the rate of interest be. The *rate of interest* is the name given to the relationship between the amount of the interest and that of the money capital which is lent. In ordinary circumstances, the upper limit of the rate of interest is the average rate of profit, since interest is a part of profit. As a rule, the rate of interest is considerably less than the average rate of profit.

As capitalism develops, the rate of interest displays a tendency to fall. This tendency results from two causes: first, the operation of the law of the tendency of the average rate of profit to fall, since the average rate of profit constitutes the upper limit of the fluctuations of the rate of interest; secondly, as capitalism develops, the total mass of loan capital grows faster than the demand for it. One of the causes of the growth of loan capital is the increase among the bourgeoisie of the group of *rentiers*, i.e., capitalists who are owners of money capital and engage in no activity whatsoever in connection with business. This also reflects the increase of parasitism in bourgeois society. The growth of loan capital is facilitated by the centralisation of spare money in banks and savings banks.

Interest on short-term loans on the U.S. money market ranged in 1866–80 from 3·6 (lowest rate) to 17 (highest rate), in 1881–1900 from 2·63 to 9·75, in 1901–20 from 2·98 to 8, in 1921–35 from 0·75 to 7·81, and in 1945–54 from 0·75 to 2·75.

Forms of Credit. Banks and their operations

Capitalist credit is the form of motion of loan capital. Through the medium of credit, temporarily spare money capital is transformed into loan capital. Under capitalism two forms of credit exist: commercial and bankers'.

Commercial credit means the credit which the functioning capitalists (i.e., the manufacturers and merchants) allow each

other in connection with the realising of commodities. The manufacturer, endeavouring to hasten the turnover of his capital which is in commodity form, supplies commodities on credit to another manufacturer or wholesale merchant, and the wholesale merchant in his turn sells the commodities on credit to the retailer. Commercial credit is used by capitalists in buying and selling raw material, fuel, equipment, machinery and also consumer goods. Usually, commercial credit is short-term: it is given for a period not exceeding a few months. The instrument of commercial credit is the bill of exchange. A *bill of exchange* is a debt obligation by which the debtor undertakes to pay within a definite period of time for the commodities he has bought. When the time for payment comes round a buyer who has given a bill of exchange must honour it in cash. Commercial credit therefore is bound up with trading deals, and as a consequence is the foundation of the capitalist credit system.

Bankers' credit means credit granted by money capitalists (bankers) to the functioning capitalists. Bankers' credit, unlike commercial credit, is not drawn from capital engaged in production or circulation but from idle and also temporarily spare money capital seeking application. Bankers' credit is granted by the banks. A *bank* is a capitalist concern which trades in money capital and acts as middleman between lenders and borrowers. The bank, on the one hand, collects spare, inactive capital and income, and on the other, places money capital at the disposal of the functioning capitalists—manufacturers and merchants.

The overwhelmingly larger part of the capital at the disposal of the banks is not their own property and is subject to withdrawal. But at any particular moment only a fairly small section of the depositors are applying to take out their deposits. In the majority of cases the withdrawal of money is balanced and exceeded by the inflow of new deposits. The situation is radically altered when any emergency occurs—a crisis or a war. Then the depositors demand the return of their deposits all at the same time. In ordinary circumstances a bank need keep in its safes only a comparatively small amount of money to pay those who want to withdraw their deposits. By far the larger amount of the deposits is lent out.

Bank operations are divided into passive and active.

Passive operations are those by which the bank draws money into its safes. The principal means by which these operations

are effected is the receipt of deposits. Deposits are made in various forms: some for a definite term, others on current account. The latter must be paid out by the bank on demand, whereas fixed-term deposits may be withdrawn only after the agreed term has elapsed. Thus, fixed-term deposits are advantageous to the bank.

Active operations are those by which the bank places and utilises the means which it has at its disposal. These are, first and foremost, the granting of money on loan. One of these operations is the *discounting of bills of exchange*. A manufacturer who has sold his goods on credit brings to the bank the bill of exchange he has received from the purchaser, and the bank forthwith pays out to the manufacturer the sum specified in the bill of exchange, less a certain percentage. At the conclusion of the period for which the bill is made out, the drawer of the bill pays not the manufacturer but the bank. Through this operation commercial credit is interwoven with bank credit. Also to the category of the bank's active operations belong the granting of loans on various kinds of security: goods, gilt-edged securities, shipping documents. The bank also makes direct investments of capital in various enterprises in the form of long-term credit.

Thus, a banker is a trader in money capital. In its passive operations the bank pays interest, in its active operations it receives interest. The bank pays a lower rate of interest on the money lent to it and charges a higher rate on the loans which it makes itself. The source of the bank's profit is the surplus-value created in production. The bank's profit comes out of the difference between the interest which the bank draws and the interest which it pays out. Out of this difference the bank covers the expenses arising from its operations; these expenses are net costs of circulation. The sum remaining forms the bank's profit. The mechanism of capitalist competition by its own action brings down the level of this profit to the average rate of profit on capital in general. The labour of the wage-workers employed in the bank, like the labour of commercial employees in the realisation of commodities, does not create value and surplus-value; but enables the banker to appropriate part of the surplus-value which is created in production. The bank employees are thus subjected to exploitation by the bankers.

The banks fulfil the function of centres for the settling of accounts. Each business which deposits money with the bank or is in receipt of a loan from it has a current account at the bank. The bank pays out money from current accounts on orders presented in a special form, called *cheques*. Thus, the bank acts as cashier for a number of businesses. This circumstance makes it possible to develop on an extensive scale the settling of accounts without any actual passing of cash. Capitalist A, who has sold commodities to capitalist B, receives from him a cheque drawn on the bank where both of them have current accounts. The bank adjusts the account, transferring the amount named on the cheque from B's current account to A's. Concerns have current accounts in different banks. In the principal centres the banks set up special clearing houses where cheques drawn on many banks cancel each other out to a considerable extent. The circulation of cheques and bills of exchange reduces the need for cash.

Under capitalism there are three main types of bank: commercial banks, mortgage banks and banks of issue. *Commercial banks* provide credit for manufacturers and merchants predominantly by way of using short-term loans. To a large extent this is done by discounting bills of exchange. This credit is mainly drawn from deposits.

Mortgage banks are concerned with the issue of long-term loans on the security of real property (landholdings, houses, buildings). The rise and activity of mortgage banks is closely connected with the development of capitalism in agriculture, with the exploitation of the peasants by the bankers. To this category of banks also belong the agricultural banks which grant long-term loans for productive purposes.

Banks of issue have the right to issue money of credit—banknotes. *Central banks of issue* play a special role. It is in these banks that the country's gold reserves are concentrated. They enjoy the exclusive right to issue banknotes. Central banks do not usually do business with particular manufacturers or merchants, but make loans to commercial banks, which in their turn do business with entrepreneurs. Thus, the central banks of issue are bankers' banks.

By concentrating loan and payment transactions, banks help to speed up the turnover of capital and to lower the costs of monetary circulation. At the same time, the activity of the banks facilitates the centralisation of capital, the squeezing-out of the small and medium capitalists, the intensification of the exploitation of the workers and the plundering of the craftsmen and artisans. Mortgage loans ruin the peasants because the

payment of interest on these loans, absorbing as it does the major part of their incomes, leads to the breakdown of their economic activity. The paying off of these debts is often effected by way of selling up the land and other property of the peasants who have fallen into dependence on the banks.

Concentrating all the money capital of society as they do, and acting as middlemen for credit, the banks serve as a special kind of apparatus for the spontaneous distribution of resources between different branches of the economy. This distribution takes place not in the interest of society or in accordance with its needs, but in the interests of the capitalists. Credit facilitates the extension of production, but this extension again and again encounters the narrow framework of effective demand. Credit and the banks contribute to the further growth of the socialisation of labour, but the social character of production comes into ever sharper conflict with the private, capitalist form of appropriation. Thus, the development of credit renders the contradictions of the capitalist mode of production more acute and intensifies its anarchy.

Joint-Stock Companies. Fictitious Capital

In the capitalist countries of today the overwhelming majority of large concerns take the form of joint-stock companies. Joint-stock companies made their appearance as far back as the beginning of the seventeenth century, but they became very widespread only in the second half of the nineteenth century.

A *joint-stock company* is a form of enterprise the capital of which consists of contributions by its members, who own a certain number of shares, commensurate with the amount of money invested by them. A *share* is a security which gives the holder the right to receive part of the income of the enterprise in accordance with the amount inscribed upon it.

The income received by the shareholder is called a *dividend*. Shares are bought and sold at definite prices.

A capitalist who buys shares might have deposited his capital in the bank and received, say, 5 per cent on it. However, this income does not satisfy him and he prefers to buy shares. Although this course has some risk attached to it, as against that it offers him a larger income. Let us suppose that a share capital of ten million dollars is divided into 20,000 shares, priced at 500 dollars each, and that the business brings in one million dollars profit. The joint-stock company

decides to leave 250,000 dollars of this amount in reserve and to divide the remaining sum of 750,000 dollars as dividend amongst the shareholders. In this case each share will bring its owners an income, in the form of dividend (750,000 dollars divided into 20,000 shares) of 37·5 dollars, which works out at 7·5 per cent.

Shareholders when they sell their shares try to get a price which, if it were paid into a bank, would bring them in as loan-interest the same income which they receive as dividend. If a 500-dollar share brings in 37·5 dollars dividend, the holder of such a share will try to sell it for 750 dollars, so that, when he deposits this amount in a bank which pays 5 per cent, he will receive the same 37·5 dollars as interest. Purchasers of shares, however, taking into account the risk involved in investing their capital in a joint-stock enterprise, endeavour to acquire shares for a smaller sum. The price of shares depends on the amount of dividend and the level of loan-interest. The price of shares rises with the rise of dividend or the fall in the interest-rate; conversely, it falls when the dividend is lowered or the interest-rate raised.

The difference between the total amount of the prices of shares issued on the foundation of a joint-stock company and the magnitude of the capital actually invested in the concern, makes up the founder's profit. Founder's profit is one of the important means of enrichment of the large-scale capitalists.

If the capital previously invested in a concern amounts to ten million dollars, and the total of the prices of the shares issued amounts to fifteen million dollars, then founder's profit in this instance will be five million dollars.

As a result of the transformation of an individual business into a joint-stock company, capital obtains as it were a two-fold existence. The actual capital invested in the business to the amount of ten million dollars exists in the form of factory buildings, machinery, raw materials, stores, finished products, and, finally, of definite amounts of money kept in the safes belonging to the business or in a current account at the bank.

Alongside real capital, however, when the joint-stock company is founded, securities make their appearance—shares, amounting to fifteen million dollars. A share is only a reflection of capital which really exists in the concern. But at the same time, the shares have an existence separate from that of the business; they are bought and sold, the bank issues loans on them, etc.

From the formal standpoint the supreme authority in a joint-stock company is the general meeting of shareholders which elects the governing body, nominates the officials, receives and adopts the accounts of the business and decides the main questions of the activity of the joint-stock company.

But the number of votes at a general meeting is allotted in accordance with the number of shares, as represented by their holders. For this reason, the joint-stock company is in reality completely in the grip of a small handful of the biggest shareholders. Since a certain number of the shares are dispersed among small and medium shareholders who are not in a position to exercise any influence whatever on the course of affairs, in practice the big capitalists do not need to possess even so much as half of the shares to dominate a joint-stock company. The number of shares which enables one completely to rule the roost in a joint-stock company, is called the *controlling interest*.

Thus, the joint-stock company is the form in which big capital subordinates to itself and utilises for its own ends the resources of the small and medium capitalists. The widespread extension of joint-stock companies very greatly facilitates the centralisation of capital and the enlargement of production.

Capital which exists in the form of securities which bring in an income to their owners is called *fictitious capital*. To the category of fictitious capital belong shares and bonds. A *bond* is an acknowledgment of debt, issued by a bank, by a business or by the State and bringing its bearer a fixed annual rate of interest.

Securities (shares, bonds, etc.) are bought and sold on *stock exchanges*. A *stock exchange* is a market for securities. The prices at which securities are being bought and sold at any particular moment are registered on the stock exchange; deals in securities are made at these prices outside the exchanges as well (e.g., in the banks). The price of securities depends on the level of loan-interest and the amount of presumable income from these securities. Speculation in securities takes place on the stock exchange. Inasmuch as all the advantages in the game of speculation lie with the big and very big capitalists, stock exchange speculation contributes to the centralisation of capital, enriching the upper circle of capitalists and ruining the medium and small property-owners.

The widespread extent of credit and in particular of joint-stock companies to an ever-increasing extent transforms the capitalist into a receiver of interest and dividends, while the management of production passes into the hands of salaried persons—managers and directors. Thus the parasitic nature of capitalist property becomes ever more marked.

Monetary Circulation in Capitalist Countries

Even before the appearance of capitalism *metallic* monetary systems had arisen in which metals played the part of money commodity. Metallic monetary systems are divided into *bimetallic*, where the measure of value and the basis of monetary circulation is furnished by two metals at the same time, silver and gold, and *monometallic*, where only one of the two metals named plays this role. In the early stage of the development of capitalism (sixteenth to eighteenth centuries), the monetary systems of many countries were bimetallic. Towards the end of the nineteenth century nearly all capitalist countries had gone over to monometallism, with gold as the metal used.

The main features of a system of gold monometallism are: free minting of gold coins, free exchange of other money tokens for gold coins, and free movement of gold from country to country. Free minting of gold coins means the right of private persons to exchange any gold they have for coins at the mint. At the same time the owners of coins have the right to transform their coins into ingots of gold. Thus a direct and very close link is established between gold as a commodity and gold coins. Under a system like this the amount of money in circulation is spontaneously brought into keeping with the amount required for the circulation of commodities. If an excess of money is formed, part of this leaves the sphere of circulation and is transformed into hoards. If a shortage of money arises, then these hoards flow out into the sphere of circulation; money ceases to be hoarded and becomes circulation medium and means of payment. To meet the requirements of small-scale turnovers, where a gold-monometallic system prevails coins are issued which are not of face value, made of a cheaper metal (silver, copper, etc.).

Gold, the world money, serves as the instrument of international settlement in commercial and financial transactions. The exchange of the currency of one country for the currencies of others is carried out in accordance with a rate of exchange. The *rate of exchange* means the price of the monetary unit of one country expressed in the monetary units of other countries. For example, one pound sterling is equal to such-and-such a quantity of dollars.

Settlements in foreign trade transactions can also be effected

without transfers of gold or foreign currency. In some cases this can be done by a *clearing settlement*, i.e., by the mutual setting-off of debts incurred through the supply of commodities in bi-lateral trade. In other cases, settlements between countries may be effected by means of transfer of bills of exchange from country to country, without the movement of gold.

With the growth of credit-relations and the development of money's function as a means of payment *credit money* made its appearance and developed widely. Bills of exchange, bank-notes and cheques began to function mainly as means of payment. Although the bill of exchange is not money, it can serve as a means of payment through the transfer of a bill of exchange from one capitalist to another.

Banks issue their own bonds, which function as credit money, being used as medium of circulation and as means of payment. The principal form of credit money is *bank-notes*, which banks issue in exchange for bills of exchange deposited with them. This means that underlying bank-notes in the last analysis are commodity transactions.

The issue of bank-notes makes it possible to provide circulation media and means of payment adequate for the growing circulation of commodities without increasing the amount of metallic money. Under a gold system of monetary circulation bank-notes can at any time be exchanged by the banks for gold or other metallic money. In such conditions bank-notes circulate on an equal footing with gold coins and cannot depreciate, since besides the backing of credit they also have a backing of metal. As capitalism develops, a relative reduction takes place in the amount of gold which is in circulation. Gold is to an increasing extent accumulated in the form of reserve funds in the central banks of issue. The capitalist States took the road of building up gold reserves so as to strengthen their position in foreign trade, for the conquest of new markets and in preparing and waging wars. Gold came to be replaced in circulation by bank-notes and later also by paper money. Whereas at first bank-notes were, as a rule, exchangeable for gold, later on inconvertible bank-notes were issued. This has to a considerable extent made bank-notes similar to paper money.

As already mentioned, *paper money* arose on the basis of the development of money's function as a medium of circulation.

Paper money issued by States as legal tender, are inconvertible into gold and serve to represent metallic money of full value in its function as a medium of circulation.

Since the beginning of the first imperialist world war (1914–18) the majority of capitalist countries have gone over to the system of paper-money circulation. At the present time gold money is not in circulation in any country. The ruling classes of capitalist States utilise the issue of inconvertible bank-notes and paper money and the devaluation of currencies as a means of additional exploitation and plundering of the working people.

This is seen with particular clarity in the case of inflation. Inflation is characterised by the presence in the channels of circulation of an excessive amount of paper money, its devaluation, a rise in the prices of commodities, a fall in the real wages of manual and clerical workers and an intensification of the impoverishment of the peasants, with an increase in the profits of the capitalists and the receipts of the landlords. Bourgeois States employ inflation as an instrument of economic war against other countries and conquest of fresh markets. Inflation often enables exporters to make additional profits, through buying goods in their own countries with depreciated money at a low rate and selling these goods abroad for hard currency. At the same time the growth of inflation brings disorder into economic life and arouses indignation among the masses. This compels the bourgeois States to carry out monetary reforms in order to strengthen their monetary systems and stabilise currencies.

The most widespread kind of monetary reform is devaluation. *Devaluation* is an official reduction of the rate of exchange of paper money, in relation to the metallic unit of money, carried out by exchanging old, depreciated paper money for a smaller quantity of new money. Thus, in Germany in 1924 the old, depreciated money was exchanged for new, expressed in gold marks, at the rate of one trillion marks for one mark.

In a number of cases devaluation has not been accompanied by exchange of old paper money for new.

Monetary reforms are carried out in capitalist countries at the expense of the working people, through increases in taxes and decreases in wages.

BRIEF CONCLUSIONS

(1) Loan capital is money capital which its owner places temporarily at a capitalist's disposal in return for a consideration in the form of interest-payments. Interest is a part of the industrial capitalist's profit which he hands over to the owner of loan capital.

(2) Capitalist credit is the form of movement of loan capital. The main forms of credit are commercial credit and bankers' credit. The banks concentrate the monetary resources of society in their hands and make them available as money capital to the functioning capitalists—manufacturers and merchants. The development of credit leads to the growth of capitalist contradictions. The separation of ownership of capital from the employment of capital in production graphically reveals the parasitic character of capitalist property.

(3) A joint-stock company is a form of enterprise the capital of which consists of contributions by its members, each of whom owns a certain number of shares corresponding to the amount of money he has invested. In joint-stock companies big capital subjects to itself and uses in its own interests the resources of small and medium capitalists. Joint-stock companies stimulate the centralisation of capital.

(4) As credit develops, the use of credit money becomes widespread—bank-notes issued by the banks in exchange for bills of exchange. The ruling classes of capitalist society use the issue of paper money as a means of intensifying the exploitation of the working people. By inflation the burden of State expenditure is transferred to the shoulders of the mass of the people. Monetary reforms are carried out by capitalist States at the expense of the interests of the working people.

CHAPTER XIV

GROUND-RENT. AGRARIAN RELATIONS UNDER CAPITALISM

The Capitalist System of Farming and Private Property in Land

In bourgeois countries capitalism prevails not only in industry but also in agriculture. The greater part of the land is concentrated in the hands of a class of large landowners. The bulk of agricultural production for the market is carried on by capitalist enterprises employing wage-labour. In bourgeois countries, however, the numerically predominant form of economy in farming remains the petty-commodity-producing peasant holding.

Two paths of development are most typical of capitalism in agriculture.

The first path is one in which the old landlord estate is preserved, in the main, and gradually transformed through reforms into a capitalist economy. Passing over to capitalist forms of estate-management, the landlords, in addition to using free, hired labour, also make use of methods of exploitation derived from serfdom. Servile forms of dependence by the peasants on the landlords are retained in agriculture, in such forms as labour-rent, share-cropping, etc. This path of capitalist evolution in farming was typical for Germany, Tsarist Russia, Italy, Japan and a number of other countries.

The second path consists of the old landlord estate being broken up by a bourgeois revolution and agriculture being freed from the shackles of serfdom: as a result of which the development of the productive forces takes place more rapidly. Thus, in France the bourgeois revolution of 1789–94 brought feudal landownership to an end. The confiscated lands of the nobility and clergy were sold off. Small peasant economy came to predominate in the country, though a considerable part of the land fell into the hands of the bourgeoisie. In the U.S.A. as a result of the Civil War of 1861–5 the slave-owners' latifundia in the Southern States were broken up, a large amount of unworked land was sold off cheaply and agriculture began to

develop along the lines of capitalist farming. But even in these countries, as capitalism developed, large-scale property in land arose anew on a new, capitalist basis.

As a result of the transformation of pre-capitalist forms of agriculture, large-scale feudal and petty peasant property in land to an ever-increasing extent give place to bourgeois landed property. A continually growing section of the lands of the landlords and the peasants passes into the hands of the banks, the rural-bourgeoisie, manufacturers, merchants and money-lenders.

The following figures show how property in land is becoming concentrated. In the U.S.A. in 1950 76·4 per cent of the farms possessed only 23 per cent of all the land area, while in 23·6 per cent of the farms were concentrated 77 per cent of the land. The largest latifundia, each with more than a thousand acres, which made up 2·3 per cent of all the farms, possessed 42·6 per cent of the land.

According to census data for 1950, in Great Britain (U.K., excluding Northern Ireland), 75·9 per cent of the farms embraced only 20·4 per cent of all the agricultural land, while 24·1 per cent of the farms embraced 79·6 per cent, and of these 2·3 per cent of the largest farms embraced 34·6 per cent of the land.

In France in 1950 62·1 per cent of the land was in the hands of 20·5 per cent of the farmers.

In pre-revolutionary Russia a very large amount of land belonged to the landlords, the Imperial family, the monasteries and the kulaks. The largest landlords, possessing more than 1,500 acres each, numbered in European Russia at the end of the nineteenth century about 30,000. They owned 190 million acres of land.. At the same time, ten and a half million peasant households, suffering the oppression of semi-serfdom, possessed only 202 million acres.

Under capitalism a *monopoly of private ownership of land* by a class of large landowners prevails. Large landed proprietors usually let out part of their land on lease to capitalist tenant-farmers and small peasants. The ownership of land is separated from agricultural production.

Capitalist tenant farmers pay to the owner of the land at definite intervals, e.g., every year, a *rent* laid down in the tenancy agreement, i.e., a sum of money in return for permission to apply their capital to the piece of land in question. The principal part of the rent is the ground-rent. Rent includes other elements in addition to ground-rent. Thus, if capital has previously been invested in a piece of land which is being leased (e.g., in the form of farm buildings or irrigation works), then

the tenant must pay the landowner, besides the ground-rent, also an annual interest on this capital. In practice capitalist tenant-farmers often meet part of their rent by lowering the wages of their workers.

Capitalist ground-rent expresses the relations between three classes in bourgeois society: wage-workers, capitalists and owners of land. The surplus-value created by the labour of the wage-workers falls first of all into the hands of the capitalist tenant-farmer. Part of the surplus-value remains with the tenant in the form of average profit on capital. Another part, being the excess over the average profit, the tenant is obliged to hand over to the landowner as ground-rent. *Capitalist ground-rent* is that part of the surplus-value which remains after deduction of the average rate of profit on the capital invested in the farm, and which is paid to the owner of the land. Often the landowner, instead of letting out the land on lease, himself engages workers and runs a farm. In that case both rent and profit belong to him alone.

It is necessary to distinguish between *differential rent* and *absolute rent*.

Differential Rent

In agriculture as in industry an entrepreneur will invest his capital in a certain line of production only if it promises him the average profit. Those entrepreneurs who invest their capital under more favourable conditions of production than others, for example, in more fertile pieces of land, obtain besides the average profit on their capital also an additional profit.

In industry, additional profit is obtained by enterprises which introduce higher technique compared with the average level of technique in the given branch of industry. Additional profit cannot be a constant phenomenon in industry. As soon as some technical improvement which has been introduced in a particular enterprise becomes widespread, the pioneer enterprise is deprived of its additional profit. In agriculture, however, additional profit is consolidated for a more or less lengthy period. The reason for this is that in industry any number of concerns may be set up, equipped with the most advanced machinery. In agriculture it is not possible to bring into being any number of pieces of land, not to speak of better pieces, because the

amount of land is limited and all the land suitable for cultivation is occupied by private owners. The limited amount of land and the fact that it is occupied by particular owners gives rise to *monopoly of capitalist ownership of land*, or monopoly in land as the subject of economic activity.

Furthermore, in industry the price of production of commodities is determined by the *average* conditions of production. The price of production of agricultural commodities is formed in a different way. The existence of the monopoly of capitalist ownership of land as a subject of economic activity leads to the general, regulating price of production (i.e., the costs of production plus the average profit) of agricultural products being determined by the conditions of production which prevail not on the average but on the *worst* of the cultivated land, since the production of the best and medium-quality land is insufficient to meet society's demands. If the capitalist tenant-farmer who invested his capital in the worst piece of land did not obtain the average profit, he would withdraw his capital to another branch of economy.

The capitalists who farm the medium and best pieces of land produce agricultural commodities more cheaply; in other words, the individual price of production on their farms is lower than the general price of production. Making use of the monopoly of land as an object of economic activity, these capitalists sell their goods at the general price of production and obtain additional profit, which goes to form differential rent. Differential rent does not arise because private property in land exists; it comes into being because of the fact that agricultural products which are grown under varying conditions of productivity of labour, are sold at a uniform market price, determined by conditions of production on the worst lands. The capitalist tenant-farmers are compelled to pay the differential rent to the landowners, retaining for themselves the average profit.

Differential rent is the excess profit—over and above the average profit—obtained by those farms that operate under more favourable conditions of production; it means the difference between the individual price of production on the best and medium plots of land and the general price of production, determined by conditions of production on the worst plots of land.

This additional profit, like all surplus-value in agriculture,

is created by the labour of the agricultural workers. Differences in the fertility of the plots of land provide only the conditions for a higher productivity of labour on the best lands. Under capitalism, however, a *misleading appearance* is formed, as though the rent which is appropriated by the owners of land were a product of the land and not of labour. In fact, the only source of ground-rent is surplus labour, surplus-value. "For a correct understanding of rent naturally what is needed first and foremost is recognition that it is obtained not from the soil but from the produce of agriculture, and so from labour, from the price of the product of labour, e.g., wheat: from the value of agricultural produce, from labour invested in the land, and not from the land itself." (K. Marx, *Theories of Surplus Value*, Russian edition, 1936, vol. II, Pt. 1, p. 221.)

There are two forms of differential rent:

Differential rent I is connected with the difference in the fertility of the soil and in the location of the pieces of land in relation to markets.

From a more fertile piece a higher yield can be obtained with the same outlay of capital. Let us take for example three pieces which are identical in size but *different in fertility*.

Pieces of land	*Outlay of capital in dollars*	*Average profit in dollars*	*Production in centners*	*Individual price of production*		*General price of production*		*Differential rent I*
				of all production in dollars	*of one centner in dollars*	*of one centner in dollars*	*of all production in dollars*	*in dollars*
I	100	20	4	120	30	30	120	0
II	100	20	5	120	24	30	150	30
III	100	20	6	120	20	30	180	60

The leaseholder of each of these pieces lays out 100 dollars on hire of workers, purchase of seed, machinery, implements, upkeep of cattle, and other expenses. The average profit is 20 per cent. Labour applied to these pieces of varying fertility gives a yield of 4 centners from the first plot, 5 from the second and 6 from the third.

The individual price of production of the whole *mass* of products produced on each piece is the same. It is 120 dollars (costs of production plus average profit). The individual price of production of a *unit* of production differs from one piece to

another. A centner of agricultural produce from the first piece ought to be sold for 30 dollars and one from the third for 20 dollars. But since the general price of production in agricultural commodities is uniform and is determined by the conditions of production on the worst piece of land, every centner of produce from all three of the pieces will be sold at 30 dollars. The tenant of the first (worst) piece will receive for his harvest of 4 centners 120 dollars, i.e., the amount equal to his costs of production (100 dollars) plus the average profit (20 dollars). The tenant of the second piece receives for his 5 centners 150 dollars. Over and above his costs of production and the average profit, he receives 30 dollars of additional profit, which constitutes the differential rent. Finally, the tenant of the third piece receives for his 6 centners 180 dollars. Here the differential rent amounts to 60 dollars.

Differential rent I is also connected with *difference in location* of pieces of land. Those farms which are situated nearer to selling outlets (towns, railway stations, seaports, elevators, etc.) save a considerable part of the labour and means of production required for transport of products, compared with farms which are at a greater distance from these outlets. As they sell their products at the same price as the others, the farms which are situated near to markets, obtain additional profit, which forms differential rent, by virtue of their situation.

Differential rent II arises as a result of additional investments of means of production and labour in one and the same piece of land, i.e., when farming is *intensified*. In contrast to extensive farming, which grows by extending the arable area of pastures, intensive farming develops by the introduction of improved machinery and artificial fertilizers, the carrying out of land-improvement work, the breeding of more productive strains of cattle, etc. With technique unchanged, intensification of agriculture can be expressed in a greater amount of labour expended on a given piece of land. All these measures result in the obtaining of additional profit, which forms differential rent.

Let us come back to our example. On the third piece, the most fertile one of the three, 100 dollars was expended first of all, and this gave 6 centners of produce: the average profit was 20 dollars, the differential rent 60 dollars. Let us suppose that, prices remaining as before, a second, additional and more

productive expenditure of 100 dollars of capital is made on this piece—connected with development of technique, use of greater quantity of fertilizer, etc. As a result, an additional harvest of 7 centners is obtained, the average profit on the additional capital amounts to 20 dollars, and the surplus over the average profit to 90 dollars. This surplus of 90 dollars constitutes differential rent II. So long as the previously-made tenancy agreement continues in force, the tenant is paying for this piece a differential rent of 60 dollars, and the excess over the average profit which he receives from the second, supplementary expenditure of capital, goes into his pocket. But the land is leased for a defined period of time. When next the land is leased to a tenant, the landowner will take into account the profits which have been achieved by additional expenditure of capital, and will raise the amount of ground-rent on this piece to 90 dollars. With these aims in mind landlords try always to conclude tenancy agreements for short periods only. What follows from this is that capitalist tenant-farmers are not interested in making large-scale outlays of capital such as bring results only after a long interval of time, since the gains produced by these outlays will eventually be appropriated by the landowners.

Capitalist intensification of agriculture is carried out for the purpose of obtaining the maximum profit. In their hunt for high profits the capitalists use the land in rapacious fashion, developing farms of a narrowly specialised type, with cultivation of some single crop alone. Thus, in the last quarter of the nineteenth century the land in the Northern States of the U.S.A. was mainly under grain crops. This brought in its train destruction of the soil structure, its pulverisation, and the appearance of "black storms" of dust.

The production of certain kinds of agricultural crops rather than others changes with the fluctuation of market prices. This makes it impossible to introduce on all lands correct crop-rotations, which are the foundation of a high level of agriculture. Private property in land hinders the carrying-out of large-scale land-improvement and other works which pay for themselves only over a lapse of years. Capitalism thus obstructs the introduction of a rational system of agriculture.

"All progress in capitalistic agriculture is a progress in the art, not only of robbing the labourer, but of robbing the soil;

all progress in increasing the fertility of the soil for a given time is a progress towards ruining the lasting sources of that fertility." (Marx, *Capital*, Kerr edition, vol. I, p. 555.)

Capitalism's defenders, in their attempts to conceal the contradictions of capitalist agriculture and to justify the poverty of the masses, allege that agriculture is subject to the operation of an eternal, natural "law of diminishing returns": each additional application of labour to land is said to give a poorer result than the previous one.

This fabrication of bourgeois political economy is deduced from the false assumption that technique in agriculture remains unchanging, that progress in technique occurs only by way of exception. In reality, however, additional investments of means of production and labour in one and the same piece of land are associated as a rule with the development of technique, with the introduction of new and improved methods of agricultural production, which bring about a rise in the productivity of agricultural labour. The real source of the exhaustion of natural fertility and the degradation of capitalist agriculture is not the "law of diminishing results" thought up by bourgeois economists, but capitalist relations, and above all private property in land, which hold back the development of the productive forces of agriculture. What in fact increases under capitalism is not the difficulty of producing agricultural produce but the workers' difficulty in purchasing it, which results from their growing poverty.

Absolute Rent. Price of Land

Besides differential rent the owner of land receives absolute rent. The existence of this is linked with the existence of the monopoly of private ownership of land.

When we were examining differential rent we assumed that the tenant of the worst piece of land, when he sells agricultural produce, obtains for it only the costs of production plus the average profit, i.e., that he does not pay ground-rent. In reality, however, the owner of even the worst piece does not make it available for cultivation free of charge. And this means that the market price of agricultural commodities has to be higher than the price of production on the worst piece of land.

What is the source of this surplus? Under capitalism, agriculture is much more backward than industry from the technical and economic standpoint. The organic composition of capital is lower in agriculture than in industry. Let us assume that the organic composition of capital in industry is, on the average, $80c+20v$. With a rate of surplus-value of 100 per cent, each 100 dollars of capital will produce 20 dollars

of surplus-value, and the price of production will be 120 dollars The organic composition of capital in agriculture is, let us say, $60c+40v$. For each 100 dollars there is produced in this case 40 dollars of surplus-value, and the value of agricultural commodities is 140 dollars. The capitalist tenant-farmer, like the industrial capitalist, receives the average profit on his capital, equivalent to 20 dollars. In accordance with this, the price of production of agricultural goods is 120 dollars. Under these conditions the absolute rent will be (140—120) 20 dollars. It follows from all this that the value of agricultural commodities is higher than the general price of production, and the amount of surplus-value in agriculture is greater than the average profit. This excess of surplus-value over average profit is the source of absolute rent.

If there were no private property in land, this surplus would enter into the general redistribution of surplus-value among the capitalists, and agricultural products would then be sold at their prices of production. But private property in land prevents free competition, the flow of capital from industry into agriculture and the formation of an average profit, common for both agricultural and industrial enterprises. For this reason agricultural products are sold at the price which corresponds to their value, i.e., which is higher than the general price of production. The extent to which this difference can be realised and transformed into absolute rent depends on the level of market prices, which is established as a result of competition.

The monopoly of private property in land is thus the reason for the existence of absolute rent, which is paid on every plot of land regardless of its fertility or its location. *Absolute rent* is the excess of value over the general price of production which is created in agriculture in consequence of its lower organic composition of capital compared with industry and is appropriated by the landowners thanks to private property in land.

Besides differential and absolute rent another form which exists under capitalism is monopoly rent. *Monopoly rent* is additional income received owing to the price exceeding the value of a commodity produced in especially favourable natural conditions. Such, for example, is rent obtained for lands on which it is possible to produce scarce agricultural crops in restricted quantity (e.g., particularly valuable types of grape, citrus fruit, etc.), or rent for the use of water in areas

where agriculture depends on irrigation. The commodities which are produced under these conditions are sold, as a rule, at prices which are above their value, i.e., at monopoly prices. Monopoly rent in agriculture is paid at the expense of the consumer.

The class of large landowners, who have nothing whatsoever to do with material production, are able thanks to the monopoly of private ownership of land to make use of the attainments of technical progress in agriculture for their own enrichment. Ground-rent is the *tribute* which society is obliged under capitalism to pay to the large landowners. The existence of absolute and monopoly rent makes agricultural produce dearer—both foodstuffs for the workers and raw material for industry. The existence of differential rent deprives society of all the benefits connected with the higher productivity of labour on fertile lands. These benefits fall to the class of landowners and capitalist farmers. Just how burdensome ground-rent is for society is shown by the fact that in the U.S.A., according to figures for 1935–7, it amounted to 26 to 29 per cent of the price of maize and 26 to 36 per cent of the price of wheat.

Enormous resources are diverted from productive application in agriculture when land is purchased. If we leave out of account artificial constructions and improvements, such as farm-buildings, irrigation, drainage of marshes, or application of fertilizers, the land in itself has no value, since it is not a product of human labour. Nevertheless, this land which has no value is under capitalism an article which is bought and sold and has a price. The explanation of this is that the land has been seized by the landowners and made their private property.

The price of a piece of land depends on the rent annually receivable from it and on the rate of interest which the banks pay on deposits. The price of land is equal to the sum of money which, if it were lodged with the bank, would produce in the form of interest an income of the same amount as the rent obtainable from the land in question. Let us suppose that a piece of land brings in 300 dollars of rent per year and that the bank pays 4 per cent. In this case the price of the land will be $\frac{300 \times 100}{4} = 7{,}500$ dollars. Thus, the *price of land* is *capitalised rent*. The price of land is the higher, the higher the amount of rent and the lower the rate of interest.

As capitalism develops the size of rent increases. This leads to systematic raising of the price of land. Another reason for the increase in the price of land is the fall in the rate of interest.

The following figures give an idea of the growth in the price of land. Farm values in the U.S.A. rose in ten years (from 1900 to 1910) by more than 20 milliard dollars. Of this sum, increased value of implements, buildings, etc., accounted only for 5 milliard dollars, the remaining 15 milliard dollars coming from the increased price of land. During the following decade the total price of farms rose by 37 milliard dollars; more than 26 milliard dollars of this was due to the rise in the price of land.

Rent in the Extractive Industries. Rent on Building Lots

Ground-rent is not only found in agriculture. It is received also by the owners of tracts of land from the depths of which minerals are extracted (iron ore, coal, petroleum, etc.), and also by the owners of building lots in towns and industrial centres when dwelling-houses, industrial or commercial buildings or public offices are erected on them.

Rent in the extractive industries is formed in the same way as agricultural rent. Mines, pits and oilfields differ in the wealth of their reserves and the depth of their deposits, and also in their distance from the market outlets. Capitals of varying size are invested in them. For this reason the individual price of production of each ton of ore, coal, petroleum, varies from the general price of production. On the market, however, each of these commodities is sold at the general price of production which is determined by the worst conditions of production. The extra profit which is thereby received by the best and middling mines, pits and oil wells forms the differential rent, intercepted by the landowner.

Besides this, the landowners take absolute rent from each piece of land, regardless of the wealth of the minerals contained in the depths. This consists, as has been mentioned, of the excess of value over the general price of production. The existence of this excess is explained by the fact that in the extractive industries the organic composition of capital is lower than the average for industry, owing to the comparatively low level of mechanisation and the absence of outlay for the purchase of raw material. Absolute rent increases the price of ore, coal, petroleum, etc.

Finally, monopoly rent exists in the extractive industries in those tracts of land from which are extracted those exceptionally rare minerals which are sold at prices exceeding the value of their output.

The ground-rent drawn by large landowners from mines, pits and oil wells prevents a rational utilisation of the bowels of the earth. Private property in land imports a disunited character to the enterprises of the extractive industry, which obstructs mechanisation and contributes to making production expensive.

Rent for building lots is paid to a landowner by entrepreneurs leasing land where dwelling-houses or industrial, commercial or other enterprises are to be built. The main mass of the ground-rent paid in cities consists of rent from the land on which dwelling-houses stand. Location has an enormous bearing on the amount of differential rent payable for a building site. For sites which are comparatively near to the city centre and to the industrial enterprises a higher rent is charged. This is one of the reasons why, in the big cities of capitalist countries, houses are built so densely, streets so narrow, etc.

Besides differential and absolute rent the owners of land in the cities also draw tribute from society in the form of monopoly rent (they are able to do this because of the extremely limited amount of land available in many cities and industrial centres); and this raises house-rent to a very large extent. In connection with the growth of city populations the owners of urban land inflate the rent chargeable for building lots, which puts an obstacle in the way of housing construction. A considerable section of the working population is compelled to live cooped up in slums. The rising rent for housing reduces the real wages of the workers.

The monopoly created by private property in land puts a brake on the development of industry. If he is to build an industrial enterprise, a capitalist must spend his resources unproductively on buying land or on paying ground-rent for land which he leases. Ground-rent constitutes a large item in the expenses of manufacturing industry.

How great is the amount of ground-rent paid for building sites is shown by the fact that of the total amount—£155 million—of the rent annually received by British landlords in the 1930's, £100 million was ground-rent from urban land. The price of land grows rapidly in big cities.

Large-scale and Small-scale Production in Agriculture

The economic laws of development of capitalism are the same for industry and for agriculture. The concentration of production in agriculture, as in industry, leads to the ousting of petty economy by large-scale capitalist economy, which inevitably renders class contradictions more acute. The defenders of capitalism have an interest in covering up and concealing this process. Falsifying reality, they have created a mendacious theory of the "stability of small-peasant economy". According to this theory, small-peasant economy maintains its stability in the struggle with large-scale economy.

In reality, however, large-scale production in agriculture possesses a number of decisive advantages compared with small-scale production. These advantages consist first of all in the fact that it can make use of costly machines (tractors, combines, etc.) which increase the productivity of labour many times over. In the conditions of the capitalist mode of production machine technique is concentrated in the hands of the upper groups of capitalist farmers, and is beyond the reach of the working sections of the country population.

It is large-scale production that obtains all the benefits which flow from capitalist co-operation and division of labour. The principal advantage possessed by large-scale production is the high proportion of its output which is available for the market. Large and very large agricultural enterprises are responsible for the major part of all the U.S.A.'s marketable agricultural production. Meanwhile the main mass of the farmers carry on what is in essence a subsistence economy, and what they produce does not suffice to meet even the vital needs of their families.

> "Small peasants' property excludes by its very nature the development of the social powers of production of labour, the social forms of labour, the social concentration of capitals, cattle raising on a large scale, and a progressive application of science." (Marx, *Capital*, Kerr edition, vol. III, p. 938.)

Nevertheless, the process, characteristic of capitalism, of the growth of large-scale production and the ousting of small production has certain special features in agriculture. Large capitalist agricultural enterprises develop mainly by way of

intensifying cultivation. Often a farm which is small in extent of land is a large-scale capitalist concern in respect of its gross and marketable output. The concentration of agricultural production in large-scale capitalist concerns is frequently accompanied by a growth in the number of very small peasant holdings. The existence of a considerable number of such very small holdings in highly-developed capitalist countries is accounted for by the fact that it is in the interests of the capitalists to preserve a stratum of labourers with tiny allotments so that they can exploit them.

The development of large-scale capitalist agricultural production leads to intensified differentiation of the peasantry, and growth in the enslavement, impoverishment and ruin of millions of small and medium peasant households.

In Tsarist Russia before the October Revolution the peasant households consisted of 65 per cent poor peasants, 20 per cent middle peasants and 15 per cent kulaks. In France the number of owners of land fell from 7–7½ million in 1850 to 2·7 million in 1929, through the expropriation of small, parcelled-out peasant holdings, while the numbers of the agricultural proletariat and semi-proletariat reached about 4 million in 1929.

Small-scale economy in agriculture survives at the price of incredible privations and excessive overwork on the part of the tiller of the soil and the whole of his family. In spite of the peasant's working himself to exhaustion to save his seeming independence, he loses his land nevertheless, and is ruined.

Mortgage credit plays a large part in the expropriation of the peasantry. *Mortgage credit* means loans granted on security of land and real property. When a farmer who carries on an enterprise on his own land experiences a need for money to meet payments which cannot be postponed (e.g., for payment of taxes), he applies to the bank for a loan. Sometimes loans are granted for the purchase of a piece of land. The bank advances a certain sum of money on the security of the land. If the money is not paid back in due time, the land passes into the bank's possession. In fact the bank becomes the true owner of the land even earlier, for the farmer-debtor is obliged to pay over as interest a considerable part of the income he derives from the land. The peasant in fact pays ground-rent to the bank, in the form of interest, for his own piece of land.

The mortgage-indebtedness of American farmers amounted in 1910 to 3·2 milliard dollars and in 1940 to 6·6 milliard dollars. According to figures for 1936, interest on loans absorbed, together with taxes, approximately 45 per cent of the farmers' net income.

Indebtedness to the banks is a real scourge for small production in agriculture. The number of mortgaged farms in the U.S.A. was in 1890 28·2 per cent of the total and in 1940 43·8 per cent.

Every year a large number of peasant farms are sold by auction. The ruined farmers are driven from the land. The growth in farm debts expresses the process separating the ownership of land from agricultural production, its concentration in the hands of the large landowners and the transformation of the independent producer into a tenant or a wage-worker.

A very large number of small peasants rent little plots of land from large landowners on extortionate terms. The agricultural bourgeoisie takes leases of land in order to produce goods for the market and obtain profit. This is *entrepreneur tenancy*. The small peasant tenant is compelled to take a lease of a fragment of land in order to live. This is so-called *food* or *hunger tenancy*. The rent per acre paid for tenancy is usually much larger in the case of small plots of land than in that of large ones. A small peasant's rent often absorbs not only all his surplus labour but also part of his necessary labour. Tenancy relations are here interwoven with survivals of serfdom. The most widespread survival of feudalism under capitalist conditions is *share-cropping*, under which the peasant-leaseholder pays in kind up to half or more of the crops he harvests as rent for his holding.

In the U.S.A. in 1950, 57·5 per cent of the farmers owned their land and 26·5 per cent were tenants. In addition, 15·6 per cent of all farmers were "part-owners", i.e., were also obliged to hold on lease part of the land they worked. About half the tenants were *share-croppers*. Although slavery was officially abolished in the U.S.A. during last century, certain survivals of slavery continue to exist to this day, especially where Negro share-croppers are concerned.

France has a considerable number of share-cropper tenants. Besides rent in kind, which amounts to a half of their crop (and in some cases even more), they are often obliged to supply the owners of their land with produce from their farms—cheese, butter, eggs, poultry, etc.

Deepening of the Antithesis between Town and Country

A typical feature of the capitalist mode of production is a marked lagging of agriculture behind industry, a deepening and sharpening of the antithesis between town and country.

> "The development of agriculture lags behind that of industry. This is characteristic of *all* capitalist countries and is one of the most important causes of the disproportion in the development of the different branches of national economy, of crises, and of the high cost of living." (Lenin, "New data on the laws of development of capitalism in agriculture", *Selected Works*, 12-vol. edition, vol. XII, p. 274.)

Agriculture under capitalism lags behind industry, first and foremost in the level of the productive forces. Technique develops in agriculture slower than in industry. Machinery is used only on the large-scale farms; the petty commodity production of the peasantry is not in a position to use it. And the capitalist use of machinery leads to intensified exploitation and ruin of the small producers. An obstacle to the extensive use of machinery in agriculture is the cheapness of labour-power, which is caused by rural overpopulation.

Capitalism has sharply intensified the lagging of the country behind the town in the sphere of *culture*. Towns are centres of science and art. In the towns are concentrated the institutes of higher education, the museums, the theatres, the cinemas. The benefits of this culture are utilised mainly by the exploiting classes. The mass of the proletariat is able only to a very slight extent to share in the achievements of urban culture. The main mass of the peasant population in capitalist countries is also cut off from the urban centres and is doomed to cultural backwardness.

The economic basis of the antithesis between town and country under capitalism is the exploitation of the country by the town, the expropriation of the peasantry and the ruining of the majority of the rural population by the entire course of development of capitalist industry, trade and credit. The urban bourgeoisie together with the capitalist farmers and landlords exploit the many millions of peasants. The forms assumed by this exploitation are various; the industrial bourgeoisie and the merchants exploit the countryside through high prices for

manufactured commodities and relatively low prices for agricultural commodities; the banks and usurers exploit it through extortionate terms of credit; the bourgeois State exploits it by means of all sorts of taxes. The huge sums appropriated by large landowners through rent-charges and the sale of land, and also the resources collected by the banks as interest on mortgage loans etc., are diverted from the country to the town to serve the parasitic consumption of the exploiting classes.

Thus the causes of the lagging of agriculture behind industry and the deepening and sharpening of the antithesis between town and country are inherent in the very system of capitalism itself.

Private Ownership of Land and Nationalisation of the Land

As capitalism develops, private property in land becomes more and more parasitic in character. The class of large landowners grabs in the form of ground-rent an enormous share of the revenues received from agriculture. A considerable part of the revenue is withdrawn from agriculture and falls to the large landowners through the price of land. All this hinders the development of productive forces and renders agricultural produce dearer, which imposes a heavy burden upon the shoulders of the working people. This is why "nationalisation of the land has become a social necessity" (Marx, "Nationalisation of the land", Marx and Engels, *Works*, Russian edition, vol. XIII, Pt. 1, p. 341). *Nationalisation of the land* means the transformation of private ownership of land into State ownership.

In showing the need for nationalisation of the land, Lenin proceeded from the existence of two kinds of monopoly—monopoly of private property in land and monopoly in land as a subject of economic activity. Nationalisation of the land means abolition of the monopoly of private ownership of land and the absolute rent connected with it. Abolition of absolute rent would lead to a fall in the price of agricultural produce. But differential rent would continue to exist, as it is connected with monopoly in land as an object of economic activity. In capitalist conditions, a considerable part of differential rent would, on the land being nationalised, be placed at the disposal of the bourgeois State. Nationalisation of the land would

remove a number of obstacles to the development of capitalism in agriculture created by private property in land, and would free the peasantry from survivals of feudal serfdom.

The demand for nationalisation of the land was put forward by the Communist Party of the Soviet Union as far back as the period of the first Russian Revolution, 1905–7. Nationalisation of the land meant seizure without compensation (confiscation) of all the land belonging to landlords and its transfer to the peasants.

Lenin considered that nationalisation of the land was possible in a bourgeois-democratic revolution only if a revolutionary democratic dictatorship of the proletariat and peasantry were set up. Nationalisation of the land, as a demand of the bourgeois-democratic revolution, has nothing intrinsically socialist in it. But abolition of landlord ownership of land strengthens the alliance between the proletariat and the main mass of the peasantry and clears the field for the class struggle between the proletariat and the bourgeoisie. Nationalisation of the land thus helps the proletariat, in alliance with the rural poor, in its struggle to bring about the development of the bourgeois-democratic revolution into a socialist revolution.

In developing the Marxist theory of rent, Lenin pointed out that nationalisation of the land within the framework of bourgeois society was capable of accomplishment only in periods of bourgeois revolution and was "inconceivable when the class struggle between proletariat and bourgeoisie is very acute". (Lenin, "The Agrarian Programme of the Social Democrats in the First Russian Revolution, 1905–07", *Selected Works*, 12-vol. edition, vol. XII, p. 329.) In the epoch of developed capitalism, when the task of carrying through the Socialist revolution is on the order of the day, nationalisation of the land cannot be realized within the framework of bourgeois society for the following reasons. First, the bourgeoisie cannot bring itself to abolish private property in land because it fears that with the growth of the revolutionary movement of the proletariat this may shake the foundations of private property in general. Secondly, the capitalists themselves have acquired landed property. The interests of the class of bourgeois and the class of landlords become ever more closely interwoven. They always stand together in the struggle against the proletariat and the peasantry.

The entire course of the historical development of capitalism confirms that in bourgeois society the mass of the peasantry, mercilessly exploited by the capitalists, landlords, usurers and merchants, is doomed to impoverishment and want. Under capitalism the small peasants cannot reckon on an improvement in their situation. The class struggle inevitably grows more acute in the countryside. The basic interests of the main mass of the peasantry coincide with the interests of the proletariat. This provides the economic basis for the alliance between the proletariat and the working peasantry in their common struggle against the capitalist system.

BRIEF CONCLUSIONS

(1) The characteristic features of the capitalist system of agriculture are, first, that the predominant share of the land is concentrated in the hands of large landowners who let the land out on lease; secondly, that the capitalist tenant-farmers carry on their economic activity on the basis of exploiting wage-workers; thirdly, the existence of private ownership of means of production, including land, by a numerous class of small and middle peasants. Agriculture in bourgeois countries, despite the growth of capitalism, is still to a substantial degree broken up among small and middle peasant-proprietors whom the capitalists and landlords exploit.

(2) Capitalist ground-rent is that part of the surplus-value created by wage-workers in agriculture which constitutes an excess over the average profit and is paid by the capitalist tenant-farmer to the landowner for the right to use his land. The existence of capitalist ground-rent is connected with the presence of monopoly of two kinds. The monopoly of capitalist economic activity on the land as an object of economic activity is a result of the limited amount of land, and its employment as separate farms, and it leads to the price of production of agricultural commodities being determined by the worst conditions of production. The extra profit obtained from the best lands or from more productive outlays of capital, constitutes differential rent. The monopoly of private property in land, with the low organic composition of capital in agriculture compared with that in industry, gives rise to absolute rent.

With the development of capitalism, all forms of rent become bigger and the price of land increases, this being capitalised rent.

(3) In agriculture as in industry, large-scale production squeezes out small. Large-scale machine production, however, extends in agriculture considerably more slowly than in industry, even in the most developed capitalist countries. At the price of excessive, exhausting labour and sharp reduction of the standard of life of the small peasant and his family, a mass of small peasant holdings continue to exist in the capitalist countries, but are marked by extreme instability.

(4) Capitalism inevitably gives rise to a growing lag of agriculture behind industry and makes deeper and sharper the antithesis between town and country. The monopoly of private property in land withdraws from agriculture in the form of ground-rent and unproductive outlays on the purchase of land vast resources which go to finance the parasitic consumption of the landowning class and hinder the development of the productive forces of agriculture.

(5) The main mass of the peasantry is doomed under capitalism to suffer ruin and want. The fundamental interests of the proletariat and of the exploited masses of the peasantry coincide. Only in alliance with the proletariat and under its leadership, through a revolution which abolishes the capitalist system, can the working peasantry free itself from exploitation and poverty.

CHAPTER XV

THE NATIONAL INCOME

Aggregate Social Product and National Income

The entire mass of material wealth produced in society over a definite period, e.g., a year, constitutes the *aggregate social product* (or gross product).

Part of the aggregate social product, equivalent to the value of the constant capital which has been used up, in the course of the process of reproduction goes to replace the expended means of production. The cotton which has been worked up in the mill is replaced by an equivalent amount of cotton from the current year's harvest. Fresh masses of coal and oil take the place of the fuel which has been burnt up. Machines which have become obsolete are replaced by new ones. The remaining part of the aggregate social product embodies new value created by the working class in the process of production.

That part of the aggregate social product in which newly-created value is incorporated is the *national income*. The national income in capitalist society is consequently equivalent to the value of the entire aggregate social product less the value of the means of production expended during the year, or, in other words, it is equal to the sum of the variable capital and the surplus-value. As it exists in kind, the national income comprises the whole mass of consumer goods which have been produced together with that part of the means of production produced which goes to extend production. Thus the national income means, on the one hand, the total *value* newly created during the year, and on the other, a mass of material wealth of various kinds, part of the aggregate social *product* in which this newly created value is embodied.

If, for example, in the course of a year commodities are manufactured in a particular country to the value of 90 milliard dollars or marks, and of this value 60 milliards go to replace the means of production used up during the year, then the national income created during the year will be 30 milliards.

Under capitalism there are a mass of small commodity producers (peasants and artisans), whose labour also creates a definite part of the aggregate social product. For this reason a country's national income includes also the value newly created in the given period by the peasants and artisans.

The aggregate social product, and therefore also the national income, are created by workers employed in the various branches of *material production*. This means all those branches in which material wealth is produced: industry, agriculture, building, transport, etc.

The national income is not created in the *non-productive* branches, to which belong the machinery of State, credit, trade (except for those operations in this branch which are a continuation of the process of production into the sphere of circulation), medical institutions, places of entertainment, etc.

In capitalist countries a quite considerable part of the able-bodied population not only does not take part in producing the social product and national income, but is not in any way engaged in socially-useful labour. To this category of persons belong first and foremost the exploiting classes and their numerous parasitic hangers-on, together with the huge police, bureaucratic and militaristic apparatus which upholds the system of capitalist wage-slavery. A great deal of labour-power is expended without any benefit to society. Thus, enormous unproductive expenditures of labour are connected with competition and with the unrestrained speculation and incredibly extravagant advertising which go on.

The anarchy of capitalist production, the devastating economic crises, and the working of enterprises substantially below capacity sharply restrict the utilisation of labour-power. Very great masses of the working people are deprived under capitalism of the opportunity to work. The number of fully unemployed registered in the towns of the bourgeois countries in the period 1930 to 1938 was never less than 14 million.

As capitalism develops, the State apparatus becomes more and more inflated; the number of persons in attendance upon the bourgeoisie grows, and while the portion of the population engaged in the sphere of material production is reduced, the proportion of persons engaged in circulation increases. The

army of unemployed grows in size and agrarian surplus-population becomes more intense. The effect of all this is to limit very much the growth of the aggregate social product and the national income in bourgeois society.

In the U.S.A. the proportion of the able-bodied population engaged in branches of material production was in 1910 43·9 per cent, in 1920 41·5 per cent, in 1930 35·5 per cent and in 1940 about 34 per cent.

In the U.S.A. the average annual growth of the national income during the last thirty years of the nineteenth century amounted to 4·7 per cent, in 1900–1919 to 2·8 per cent, in 1920–38 to 1 per cent and in the years since the Second World War, 1945–54, to 0·7 per cent.

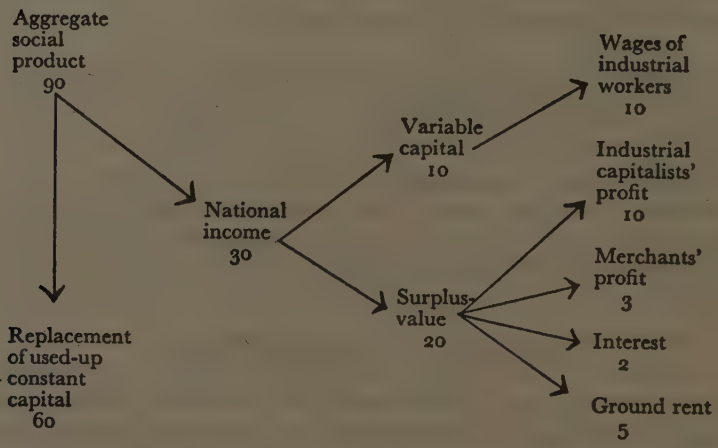
Distribution of the National Income

Each mode of production has its own historically determined forms of distribution. The distribution of the national income under capitalism is determined by the fact that ownership of the means of production is concentrated in the hands of the capitalists and landlords, who exploit the proletariat and peasantry. The consequence of this is that the national income is distributed not in the interests of the working people but in those of the exploiting classes.

Under capitalism the national income created by the workers' labour falls to the disposal, first of all, of the industrial capitalists (including capitalist entrepreneurs in agriculture). The industrial capitalists, when they realise the commodities produced, receive the full amount of their value, including the sum of variable capital and surplus-value. Variable capital is transformed into the *wages* which the industrial capitalists pay to the workers engaged in production. The surplus-value remains in the hands of the industrial capitalists; from it come the incomes of all the groups which constitute the exploiting classes. Part of the surplus-value is transformed into *industrial capitalists' profit*. A certain portion of the surplus-value is handed over by the industrial capitalists to the merchant capitalists in the form of *merchants' profit* and to the bankers as *interest*. Part of the surplus-value is handed over by the industrial capitalists to the landowners as *ground-rent*.

This distribution of the national income between the different classes of capitalist society can be depicted in the form of a

diagram like this (the figures stand for milliards of dollars or marks, etc.):



Involved in this distribution is also that portion of the national income which is created in the given period by the labour of the peasants and artisans: part of this is taken by the peasants and artisans themselves, another part goes to the capitalists (kulaks, purchasing agents, merchants, bankers, etc.) and a third part goes to the landlords.

The incomes of the working people are based on their personal labour and are *earned incomes*. The source of the incomes received by the exploiting classes is the labour of the workers, together with that of the peasants and artisans. The incomes of the capitalists and landlords are based upon the labour of others and are *unearned incomes*.

The unearned incomes of the exploiting classes are increased still more in the process of the further distribution of the national income. Part of the income received by the population, and in the first place of the working people, is redistributed through the State budget and used in the interests of the exploiting classes. Thus, part of the income of the workers and peasants, which finds its way through tax-payments into the State budget, is then transformed into additional income for the capitalists and into the income of officials. The burden of taxation imposed by the exploiting classes on the working people grows rapidly.

In Britain at the end of the nineteenth century taxes amounted to 6–7 per cent of the national income, in 1913 to 11 per cent, in 1924 to 23 per cent, in 1950 to 38 per cent; in France at the end of the nineteenth century taxes were 10 per cent of the national income, in 1913 13 per cent, in 1924 21 per cent and in 1950 29 per cent.

Furthermore, part of the national income is transferred, by way of payments for what are called services, to the non-productive branches (e.g., for use of municipal services, medical aid, places of entertainment, etc.). As already pointed out, no social product is created in these branches, nor, consequently, any national income; but the capitalists who exploit the workers employed in these branches receive part of the national income created in the branches of material production. From this income the capitalists who own businesses in the non-productive branches pay the wages of their workers, meet the material outlay which they have to find (for premises, equipment, heating, etc.) and take their profit.

Thus, the payment made for services must replace the costs incurred by these concerns and ensure the average rate of profit, since otherwise the capitalists will not employ their capital in these branches. In their hunt for high profits the capitalists endeavour to inflate payments for services, which leads to a further fall in the real wages of the workers and the real incomes of the peasants.

The re-distribution of the national income which takes place through the budget and also through high payments for services intensifies the impoverishment of the working people.

As the outcome of this entire process of distribution, the national income is divided into two parts: (1) the income of the exploiting classes, and (2) the income of the working people, both those engaged in the material-production branches and those in the non-productive branches.

The share of the national income taken by the workers and other working people of town and country who do not exploit the labour of others amounted in the U.S.A. in 1923 to 54 per cent, while the share taken by the capitalists was 46 per cent; in Britain in 1924 the share of the wage-earners was 45 per cent; in Germany in 1929 the working people's share was 55 per cent and that of the capitalists 45 per cent. At the present time in the capitalist countries the working people, who make up nine-tenths of the population, receive considerably

less than half of the national income, while the exploiting classes receive considerably more than half.

The working people's share of the national income steadily falls, while that taken by the exploiting classes grows. In the U.S.A., for example, the working people's share of the national income amounted in 1870 to 58 per cent, in 1890 to 56 per cent, in 1923 to 54 per cent, in 1951 to approximately 40 per cent.

The national income is used, in the last analysis, for consumption and accumulation. The way the national income is used in bourgeois countries is determined by the class nature of capitalism and expresses the ever-growing parasitism of the exploiting classes.

The share of the national income which goes toward the personal consumption of the working people, who are the principal productive force of society, is so low that, as a rule, it does not guarantee them even the minimum needed for subsistence. A very great number of workers and working peasants are obliged to deny themselves and their families necessities, to live wretchedly in hovels and to deprive their children of education.

A very substantial part of the national income goes toward parasitic consumption by the capitalists and landowners. Colossal sums are spent by the capitalists and landowners on buying luxury articles and on maintaining a numerous crowd of hangers-on.

Under capitalism the share of the national income which goes toward the extension of production is quite small in comparison with the possibilities and needs of society. Thus, in the U.S.A. the share of the national income going to accumulation amounted in the period 1919–28 to approximately 10 per cent; but in the decade 1929 to 1938 accumulation amounted on the average only to 2 per cent of the national income, while during the years of crisis a certain eating away of fixed capital took place.

The comparatively small size of accumulation under capitalism is due to the fact that a considerable part of the national income goes to the parasitic consumption of the capitalists, to unproductive expenditure. Thus, the net costs of circulation which are incurred in the upkeep of the commercial and credit apparatus, the storing of surplus stocks, advertising, stock exchange speculation, etc., come to huge

amounts. In the U.S.A., during the period between the first and second world wars, the net costs of circulation absorbed 17–19 per cent of the national income.

A continually growing part of the national income under capitalism goes on war expenditure, the armaments race and the upkeep of the State apparatus.

On the surface of things in capitalist society, incomes and their sources appear in distorted, *fetishistic* form. A misleading appearance comes about, as though capital itself gave birth to profit and land to rent, while the workers created only the value of their own wages.

These fetishistic notions underlie the bourgeois theories about the national income. By means of theories of this kind bourgeois economists endeavour to muddle the question of the national income in a way which benefits the bourgeoisie. They try to show that not only the workers and peasants but also the capitalists and landowners, and such persons as officials, policemen, stockbrokers, clergymen, etc., all have a share in creating the national income.

Furthermore, bourgeois economists show in a false light the distribution of the national income. They understate the share of this income which is taken by the capitalists and landowners. Thus, for example, the incomes of the exploiting classes are given on the basis of the returns made by the taxpayers themselves, which markedly understate these incomes; they do not take into account the enormous salaries drawn by many of the capitalists as directors of joint-stock companies; they do not take into account the incomes of the rural bourgeoisie, etc. At the same time the incomes of the working people are artificially exaggerated through including in their ranks the high-salaried upper officials, managers of businesses, banks, commercial concerns, etc.

Finally, the bourgeois economists distort the real picture of the distribution of national income by omitting to separate off the expenditure on consumption by the exploiting classes and the net costs of circulation, by understating the share which goes to military expenditure and in every possible way concealing the unproductive spending of a large part of the national income.

The State Budget

The bourgeois State is an organ of the exploiting classes which has for its purpose to hold the exploited majority of society in subjection and to assure the interests of the exploiting minority in all spheres of internal and external policy.

The bourgeois State possesses a ramified apparatus for the fulfilment of its tasks: army, police, punitive and judicial bodies, intelligence service, and various instruments for administrative

control and ideological influence over the masses. This machinery is kept up out of the State Budget. Taxes and loans provide the sources of the money for the State Budget.

The *State Budget* is an instrument for the redistribution of part of the national income in the interests of the exploiting classes. It takes the form of an annual estimate of State income and expenditure. Marx wrote that the Budget of the capitalist State is nothing but "a class Budget—a middle class Budget" (Marx, "L.S.D. or Class Budgets, and Who's Relieved by Them", in The *People's Paper*, No. 51, April 23, 1853).

The expenditure of the capitalist State is to an overwhelming degree unproductive.

A very great portion of the resources of the State Budget under capitalism goes on war and war preparation. With this should be grouped also expenditure on scientific research in the field of the production and perfection of new weapons of mass annihiliation, and on subversive activity in other countries.

Another large portion of the expenditure of capitalist States is connected with the maintenance of an apparatus for holding down the working people.

> "Contemporary militarism is the result of capitalism; it is the 'living manifestation' of capitalism in both its forms: as a military force used by the capitalist States in their external conflicts . . . and as a weapon in the hands of the ruling class for the suppression of all movements (economic and political) of the proletariat." (Lenin, "Militant Militarism and the Anti-militarist Tactics of the Social Democrats", *Selected Works*, 12-vol. edition, vol. IV, p. 325.)

Very considerable sums are spent by the State, especially during wars and crises, on direct subsidising of capitalist businesses and guaranteeing them high profits. Frequently the subsidies paid out to banks and manufacturers have the purpose of saving them from bankruptcy during crises. By means of State purchases paid for out of the Budget, milliards of additional profit are pumped into the pockets of the big capitalists.

Expenditure on culture and science, education and public health takes an insignificant share of the State Budgets of the capitalist countries. In the U.S.A., for example, more than two-thirds of the total Federal Budget has in recent years been spent on war purposes, while public health, education and

housing took less than 4 per cent, of which less than 1 per cent went on education.

The capitalist State obtains the bulk of its revenue by way of *taxes*. In Britain, for example, taxes made up 89 per cent of the total amount of the Budget in 1938.

Taxes serve, in capitalist conditions, as a form of additional exploitation of the working people by way of redistribution through the Budget of part of their incomes for the benefit of the bourgeoisie. Taxes are called *direct* if they are assessed on the incomes of particular persons, and *indirect* if they are charged on goods sold (chiefly mass consumption goods) or on services (e.g., cinema and theatre tickets, tickets for travel on municipal transport, etc.). Indirect taxes raise the prices of goods and the charges for services. Indirect taxes are in fact paid by the consumers. The capitalists also transfer to the consumers part of their direct taxes, if they succeed in raising the price of goods or services.

The policy of the bourgeois State is directed towards reducing as much as possible the rate of taxation falling on the exploiting classes. The capitalists evade paying their taxes by concealing the true amount of their incomes. The policy of indirect taxation is particularly advantageous for the propertied classes.

> "Indirect taxation charged upon articles consumed by the masses is distinguished by its very great injustice. It casts all its weight upon the poor, creating a privileged situation for the rich. The poorer a person is, the larger the share of his income that he pays to the State in the form of indirect taxes. The masses who own little or no property make up nine-tenths of the whole population, consume nine-tenths of all the taxed articles and pay nine-tenths of the total amount of indirect taxes." Lenin, "Apropos of the Public Estimates", *Works*, Russian edition, vol. v, p. 309.)

Consequently the main burden of taxation falls on the working masses: the manual and clerical workers and the peasants. As mentioned above, at the present time in the bourgeois countries about a third of the wages of the manual and clerical workers is drawn into the State Budget through taxation. High taxes are exacted from the peasants and intensify their impoverishment.

Besides taxes, an important item on the revenue side of the Budget in capitalist States is *loans*. Most often the bourgeois

State resorts to loans to cover exceptional expenditure, in the first place war expenditure. A considerable part of the resources which are gathered by way of loans are spent on State purchases of arms and supplies for the armed forces, which bring large profit to the manufacturers. In the long run loans lead to further increases in taxation of the working people, to pay interest on the loans and to pay off the loans themselves. The size of the State debt grows rapidly in bourgeois countries.

The total amount of State indebtedness throughout the world grew from 38 milliard francs in 1825 to 250 milliard in 1900, i.e., it was multiplied by 6·6. In the twentieth century it grew still faster. In the U.S.A. in 1914 the State debt amounted to 1·2 milliard dollars, and in 1938 to 37·2 milliard, i.e., to thirty-one times as much. In Britain in 1890 £24,100,000 was paid out in interest on loans, and in 1953–4 £570,400,000. In the U.S.A. in 1940 a milliard dollars were paid in loan interest, and in 1953–4 6·5 milliard.

One of the sources of revenue for the State Budget under capitalism is the issue of paper money. Bringing inflation and rising prices in its train, the issue of paper money transfers part of the national income to the bourgeois State at the cost of a lowered standard of living for the masses.

Thus the State Budget under capitalism serves as an instrument in the hands of the bourgeois State for additional robbery of the working people and enrichment of the capitalist class, and enhances the tendency to unproductiveness and parasitism in the way the national income is used.

BRIEF CONCLUSIONS

(1) The national income in capitalist society is that part of the aggregate social product in which newly created value is embodied. The national income is created in the branches of the economy where material production takes place, by the labour of the working class together with that of the peasants and artisans. As it exists in kind, the national income consists of the whole mass of consumer goods produced and that part of the means of production which is set aside for extending production. Under capitalism a considerable section of the able-bodied population not only does not create national income but does not even take part in socially-useful work.

(2) The distribution of the national income under capitalism is effected in the interests of the enrichment of the exploiting classes. The share taken by the working people in the national income falls while that taken by the exploiting classes increases.

(3) Under capitalism the national income, created by the working class, is distributed in the form of wages to the workers, profits to the capitalists (manufacturers, merchants and owners of loan-capital) and ground-rent to the landowners. A considerable part of what results from the labours of the peasants and artisans is also appropriated by the capitalists and landowners. Through the State Budget and by way of high charges for services a redistribution of the national income is carried out which still further impoverishes the working people.

(4) A huge and ever-increasing part of the national income under capitalism is used unproductively: it is spent on parasitic consumption by the bourgeoisie, on covering the excessively inflated costs of circulation, on the upkeep of the State apparatus for holding down the masses and on the preparation and conduct of predatory wars.

CHAPTER XVI

REPRODUCTION OF SOCIAL CAPITAL

Social Capital. Composition of the Aggregate Social Product

Capitalist reproduction includes both the direct process of production and also the process of circulation.

In order that reproduction may take place capital must be able to complete its rotation unhindered, i.e., to pass from the money form to the productive form, from the productive form to the commodity form, from that to the money form, and so on. This applies not only to each separate capital but also to all the capital which exists in society. "However, the turnovers of individual capitals intermingle, are mutually conditioned on one another, are their mutual premises, and form precisely in this interrelation the movement of social capital." (Marx, *Capital*, Kerr edition, vol. II, p. 407.)

The *social capital* is the aggregate of individual capitals taken together in their interdependence and interconnection. Many-sided connections exist between the separate capitals of the capitalist enterprises: some concerns supply machinery, raw material and other means of production to others, while others produce the means of subsistence bought by the workers and the consumer goods and luxury articles bought by the capitalists. Each of the individual capitalists is independent in relation to the others, but at the same time all are linked together and depend one upon the other. This contradiction shows itself in the course of the reproduction and circulation of the whole social capital. The many-sided relations of interconnection and interdependence which exist between the separate capitalists appear spontaneously as a result of the anarchy of production which is inherent in capitalism.

In examining the process of reproduction and circulation of the whole of social capital, we will suppose, so as not to complicate the question, that the whole of the country's economy is carried on on capitalist lines (i.e., that society consists exclusively of capitalists and workers) and that the whole of the constant capital is used up in the course of a year and its value completely transferred to the annual product. The

aggregate social product means simply, given this supposition, the social capital (with an increment in the form of surplus-value) which emerges from the process of production in the form of commodities.

If production is to be carried on, the social product must go through a process of circulation. In the process of circulation every part of the social product first changes its commodity form into monetary form and then changes from its monetary form into that commodity form which is necessary for the continuation of production. *Realisation of the social product* means this change of form: commodity into money and then money into a new commodity form.

As shown above, the entire social product is divided *in respect of value* into three parts: the first replaces constant capital, the second replaces variable capital, the third is surplus-value. Thus, the value of the social product is equivalent to $c+v+s$. The different parts of which the social product is composed play different roles in the course of reproduction. Constant capital must continue to serve the process of production. Variable capital is transformed into wages, which the workers spend on consumption. The surplus-value is, under simple reproduction, entirely consumed by the capitalists and, under extended reproduction, is partly so consumed and partly spent on the purchase of additional means of production and on the hire of additional labour-power.

As regards its material form, the entire social product consists of means of production and consumer goods. Accordingly, the whole of social production falls into two major subdivisions: the first subdivision (I) is the production of means of production, and the second subdivision (II) is the production of consumer goods. Consumer goods in their turn are divided into necessary means of subsistence, which go to satisfy the requirements of the working class and the working masses generally, and luxury articles which are within the means of the exploiting classes only. Owing to the lowering of their standard of living the working people are more and more obliged to give up good-quality consumer goods in favour of poor-quality ones and substitutes. At the same time the luxury and extravagance of the parasitic classes increase.

The division of the social product according to its material form predetermines in its turn a different role for different

parts of this product in the course of reproduction. Thus, for example, looms are intended to be used for the production of cloth and cannot be used for any other purpose; ready-made clothing, on the other hand, must enter into personal consumption.

In examining the rotation and turnover of an individual capital it is of no importance what commodities in particular, in material form (use-values), are produced in the given enterprise. When we examine the reproduction and circulation of the whole social capital, however, the material form of the commodities produced in society takes on essential importance. For the uninterrupted renewal of the process of production it is necessary that there shall be available both the appropriate means of production and consumer goods.

The question arises, how, in conditions of the anarchy of capitalist production, does the realisation of the social product take place? Lenin showed that "the solution of the problems of realisation will be found by analysing the *replacement* of all parts of the social product in value and in material form". (Lenin, *A Characterisation of Economic Romanticism*, F.L.P.H. edition, p. 56.) It is a matter, then, of how each part of the social product, in respect of value (constant capital, variable capital and surplus-value) and in respect of the natural form (means of production, consumer goods) finds on the market another part of the product to take its place.

When we examine extended reproduction we find that also connected with it is the question of how the transformation of surplus-value into capital takes place, i.e., whence come the additional means of production and consumer goods for the additional workers who are needed for the extension of production.

Conditions for Realisation in Capitalist Simple Reproduction

Let us first examine the conditions needed for the realisation of the social product in capitalist simple reproduction, when the whole of the surplus-value goes on personal consumption by the capitalists. These conditions may be illustrated by means of the following example.

Suppose that in the first subdivision, i.e., in the production of means of production, the value of constant capital, expressed,

for example, in millions of pounds sterling, is equal to 4,000, that of variable capital to 1,000, and that of surplus-value to 1,000. Suppose that in the second subdivision, i.e., in the production of consumer goods, the value of constant capital is 2,000, that of variable capital 500 and the surplus 500. Given these presuppositions the annual social product will consist of the following parts:

$$\text{I. } 4{,}000\,c + 1{,}000\,v + 1{,}000\,s = 6{,}000.$$
$$\text{II. } 2{,}000\,c + 500\,v + 500\,s = 3{,}000.$$

The value of the whole product which is produced in the first subdivision and exists in the form of machinery, raw material, equipment, etc., amounts, then, to 6,000. In order that the process of production may be renewed, part of this product, equal to 4,000, must be sold to concerns belonging to the first subdivision for renewal of the constant capital of this subdivision. The remaining part of the product of the first subdivision, being the reproduced value of the variable capital (1,000) and the newly-produced surplus-value (1,000), also existing in the form of the means of production, is sold to concerns of the second subdivision in exchange for consumer goods for the personal consumption of the workers and capitalists of the first subdivision. In their turn the capitalists of the second subdivision need means of production to the value of 2,000 in order to renew their constant capital.

The value of the entire product produced in the second subdivision and existing in the form of consumer goods (bread, meat, clothing, footwear, etc., and also luxury articles) amounts to 3,000. Part of the consumer goods produced in the second subdivision, to the value of 2,000, is exchanged for the wages and surplus-value of the first subdivision; in this way the constant capital of the second subdivision is renewed. The remaining part of the product of the second subdivision, being the reproduced value of the variable capital (500) and the newly-produced surplus (500), is realised within the second subdivision itself for the personal consumption of the workers and capitalists of this subdivision.

Consequently in conditions of simple reproduction there are exchanged between the two subdivisions: (1) the variable capital and surplus-value of the first subdivision, which must be exchanged into consumer goods produced in the second

subdivision, and (2) the constant capital of the second subdivision, which must be exchanged into means of production produced in the first subdivision. The following equation is a condition for realisation in capitalist simple reproduction: the variable capital plus the surplus-value of the first subdivision must be equal to the constant capital of the second subdivision:

$$\text{I } (v+s)=\text{II } c.$$

This condition of simple reproduction can also be expressed in the following image. The entire mass of goods produced in the course of a year in the first subdivision—enterprises manufacturing means of production—must be equal in value to the mass of means of production which is consumed during the year in the enterprises of both subdivisions. The entire mass of commodities produced during a year in the second subdivision—enterprises manufacturing consumer goods—must be equal in value to the total of the incomes of the workers and capitalists in both subdivisions.

Conditions for Realisation in Capitalist Extended Reproduction

Capitalist extended reproduction presupposes accumulation of capital. Since the capital of each subdivision consists of two parts—constant and variable capital—so also the accumulated part of the surplus-value is divided into these two parts: one part goes toward the purchase of additional means of production, the other to the hiring of additional labour-power. It follows from this that the annual product of the first subdivision must contain a certain surplus over the quantity of means of production which is necessary for simple reproduction. In other words, the total of the variable capital and surplus-value of the first subdivision must be *greater* than the constant capital of the second subdivision: I $(v+s)$ must be greater than II c. This is the fundamental condition for capitalist extended reproduction.

Let us examine the conditions for realisation in capitalist extended reproduction.

Suppose that in the first subdivision the value of constant capital equals 4,000, that of variable capital 1,000, and surplus-value 1,000; and suppose that in the second subdivision the value of constant capital equals 1,500, that of variable capital 750, and the surplus-value 750. On these presuppositions the annual social product will consist of the following parts:

$$\text{I. } 4{,}000\,c+1{,}000\,v+1{,}000\,s=6{,}000$$
$$\text{II. } 1{,}500\,c+\ 750\,v+\ 750\,s=3{,}000.$$

Let us suppose that, in the first subdivision, 500 out of the 1,000 surplus is accumulated. In accordance with the organic composition of capital in the first subdivision (4 : 1) the accumulated part of the surplus-value breaks down like this : 400 goes to increasing the constant capital and 100 to increasing the variable capital. The additional constant capital (400) exists as part of the product of the first subdivision itself, in the form of means of production; the additional variable capital must be obtained by way of exchange from the second subdivision, which, consequently, must also accumulate. The capitalists of the second subdivision exchange part of their surplus-value, equal to 100, for means of production and turn these means of production into additional constant capital. Then, in accordance with the organic composition of capital in the second subdivision (2 : 1), the variable capital in this subdivision must grow by 50. Consequently, in the second subdivision, out of surplus-value equal to 750, 150 will be allocated to accumulation.

Just as in simple reproduction, the second subdivision must exchange its constant capital—equal to 1,500—with the first and the first subdivision must exchange with the second its variable capital, equal to 1,000 and the part of its surplus-value consumed by the capitalists, equal to 500.

Thus, the first subdivision must exchange:

part of the product reproducing the value of variable capital	1,000
part of the accumulated surplus-value, which is being added to the variable capital	100
part of the surplus-value, consumed by the capitalists	500
Total	1,600

The second subdivision must exchange:

constant capital	1,500
part of the accumulated surplus-value, which is being added to the constant capital	100
	1,600

Exchange between the two subdivisions can take place only given equality between these two magnitudes. Thus, the condition for realisation in capitalist extended reproduction is the following equation: the value of variable capital plus that part of surplus-value destined for personal consumption by the capitalists plus that part of accumulated surplus-value which is added to variable capital, in the first subdivision, must be equal to the value of constant capital plus that part of accumulated surplus-value added to constant capital, in the second subdivision.

In extended reproduction the total of the variable capital and surplus-value of the first subdivision must grow more rapidly than the constant capital of the second subdivision, and the growth of the constant capital of the first subdivision must to an even greater extent outstrip the growth of the constant capital of the second subdivision.

In any system of society development of the productive forces is expressed in the share of social labour devoted to the production of means of production growing in comparison with the share devoted to the production of consumer goods. Preferential growth of the production of means of production as compared with production of consumer goods is a law of extended reproduction. Under capitalism a more rapid growth of the production of means of production compared with the production of consumer goods is expressed as a more rapid growth of constant capital compared with variable, i.e., a rise in the organic composition of capital.

In explaining the conditions for realisation in capitalist simple and extended reproduction, Marx put on one side, for the sake of simplifying his analysis, the growth of the organic composition of capital. The diagram of reproduction given by Marx in *Capital* presupposes an unchanging organic composition of capital. Lenin developed Marx's theory of reproduction further and worked out a diagram of extended reproduction which took into account the growth in the organic composition of capital. This diagram shows that "the production of means of production for means of production grows faster, then comes the production of means of production for means of consumption, and the growth of the production of means of consumption is slowest". (V. I. Lenin, *Concerning the So-called Question of Markets*, *F.L.P.H.* edition, 1954, p. 19.)

Lenin's diagram graphically illustrates the operation of the law of priority growth of the production of means of production in the course of capitalist extended reproduction. This operation is reflected in the spontaneous violation of the established proportions between the branches of production, in the unequal development of various branches, and in the marked lagging of the consumption of the masses behind the growth of production, because a rise in the organic composition of capital inevitably leads to a growth of unemployment and lowering of the standard of life of the working class.

The Problem of the Market, Contradictions of Capitalist Reproduction

It is obvious from the foregoing exposition that for the social product to be realised certain definite relationships (proportions) must exist between the separate parts of which it is composed and, consequently, between the branches and elements of production. Under capitalism, when production is carried on by isolated producers who are guided by the hunt for profit and who work for a market which is unknown to them, these proportions cannot but be subject to continual upsets. Extension of production takes place unequally, so that the old proportions between branches are constantly being violated and new proportions being established spontaneously, by way of the flow of capital from some branches into others. Therefore proportionality between different branches is accidental, while constant violation of proportionality is the general rule of capitalist reproduction. Examining the conditions for the normal course of capitalist simple and extended reproduction, Marx declared that they "become so many causes of abnormal movements implying the possibility of crises, since a balance is an accident under the crude conditions of this production". (Marx, *Capital*, Kerr edition, vol. II, p. 578.) In the conditions of anarchy of capitalist production the realisation of the social product takes place only amidst difficulties and continual fluctuations, which become ever stronger as capitalism grows.

Of special importance in this connection is the circumstance that the extension of capitalist production and, therefore, the formation of the internal market takes place not so much in respect of consumer goods as in respect of means of production. However, the production of means of production cannot develop in complete independence of the production of consumer goods and without any connection with it, for the enterprises which use these means of production throw on to the market ever-increasing quantities of commodities for consumption. Thus, in the last analysis, productive consumption (consumption of the means of production) is always connected with individual consumption and always depends on it. But the dimensions of the individual consumption of the mass of the people are kept in capitalist society within extremely narrow limits, on account of the operation of the laws of

capitalism, which are responsible for the impoverishment of the working class and the ruin of the peasantry. For this reason the formation and extension of the internal market under capitalism not only does not mean extension of consumption by the masses, it is, on the contrary, combined with a growth in the poverty of the overwhelming majority of the working people.

The nature of capitalist reproduction is determined by the basic economic law of capitalism, by force of which the aim of production is the extraction of profit on an ever-increasing scale, and the extension of production serves as a means to the attainment of this end, which inevitably comes up against the narrow framework of capitalist relations. It was in this sense that Marx wrote of "production for the sake of production" and "accumulation for the sake of accumulation" as typical of capitalism. But commodities are produced, in the long run, not for production but for the satisfaction of the needs of man. Thus inherent in capitalism is a deep-rooted antagonistic contradiction between production and consumption.

The contradiction between production and consumption inherent in capitalism consists in this, that the national wealth grows alongside the growth in the poverty of the people, the productive forces of society grow without a corresponding growth in consumption by the people. This contradiction is one of the forms in which the basic contradiction of capitalism manifests itself—the contradiction between the social character of production and the private-capitalist form of appropriation.

Exposing the servants of the bourgeoisie who slur over the deep-rooted contradictions of capitalist realisation, Lenin emphasises that

> "*even* with an ideally smooth and proportional reproduction and circulation of the whole social capital, a contradiction is inevitable between the growth of production and the restricted limits of consumption. In reality, *besides this*, the process of realisation proceeds not with ideally smooth proportionality, but only amidst 'difficulties', 'fluctuations', 'crises', etc. (Lenin, "Once Again on the Question of the Theory of Realisation", *Works*, Russian edition, vol. IV, p. 71.)

We must distinguish between the internal market (outlet for commodities within the country itself) and the external market (outlet for commodities abroad).

The internal market appears and extends along with the appearance and growth of commodity production, and especially with the development of capitalism, which deepens the social division of labour and breaks up the direct producers into capitalists and workers. As a result of the social division of labour the number of separate branches of production grows. The development of some branches extends the market for the commodities produced by other branches, especially for raw material, machinery and other means of production. Furthermore, the differentiation of the petty commodity producers into classes, the growth in the number of workers and the increase in the profits of the capitalists lead to an increase in the outlet for consumer goods bought by them. The level of development of the internal market is the level of development of capitalism in a country.

The socialisation of labour by capitalism appears first and foremost in the fact that the fragmentation of petty production units which existed previously is done away with and the petty local markets become united into a huge national (and later world) market.

When we examine the process of reproduction and circulation of the entire social capital the role of the external market is left on one side, since inclusion of the external market does not affect the substance of the problem. Bringing in foreign trade only shifts the problem from one country to a number of countries, but it in no way changes the essence of the process of realisation. This does not mean, however, that external markets are not of essential importance for capitalist countries. In their hunt for profit the capitalists expand production in every way possible, and seek more profitable markets, and foreign markets often prove to be especially profitable.

The contradictions of capitalist realisation manifest themselves in full force in the periodic economic crises of overproduction.

BRIEF CONCLUSIONS

(1) The rotations of individual capitals, taken in their aggregate, constitute the movement of social capital. The social capital is the aggregate of individual capitals in their connection one with another.

(2) The aggregate product of capitalist society is divided in respect of value into constant capital, variable capital and surplus-value, and in respect of its material form into means of production and consumer goods. The whole of social production is divided into two subdivisions: the first subdivision is the production of means of production and the second is the production of consumer goods. The problem of realisation is the problem of finding, for each part of the social product, by value and by material form, another part of the product to exchange for it.

(3) In capitalist simple reproduction the condition for realisation is that the variable capital plus the surplus-value of the first subdivision must be equal to the constant capital of the second subdivision. In capitalist extended reproduction the sum of the variable capital and the surplus-value of the first subdivision must be greater than the constant capital of the second subdivision. The law of extended reproduction under any social system is a preferential (more rapid) growth in the production of means of production compared with the production of consumption goods.

(4) In the course of its development capitalism creates an internal market. The growth of production and of the internal market under capitalism takes place to a greater extent in respect of means of production than in respect of consumer goods. In the process of capitalist reproduction a disproportionality of production, and a contradiction between production and consumption, reveal themselves which are inevitable under capitalism, flowing as they do from the fundamental contradiction of capitalism, the contradiction between the social character of production and the private capitalist form of appropriation of the results of production. The contradictions of capitalist reproduction are most vividly expressed in economic crises of overproduction.

CHAPTER XVII

ECONOMIC CRISES

The Basis of Capitalist Crises of Overproduction

Starting from the beginning of the nineteenth century, from the time when large-scale machine industry first arose, the course of capitalist extended reproduction has been periodically interrupted by economic crises.

Capitalist crises are crises of *overproduction.* A crisis shows itself first of all in the fact that commodities cannot be sold, since they have been produced in quantities greater than can be bought by the main consumers—the mass of the people—whose purchasing power is confined under capitalist relations of production within extremely narrow limits. "Surplus" goods encumber the warehouses. The capitalists curtail production and dismiss workers. Hundreds and thousands of enterprises are closed down. Unemployment increases sharply. A great number of petty producers are ruined, in both town and country. The lack of outlet for the goods produced leads to disorganisation of trade. Credit connections are broken. The capitalists experience an acute shortage of money for payments. The exchanges crash—the prices of shares, bonds and other securities fall headlong. A wave of bankruptcies of industrial, commercial and banking concerns sweeps forward.

Overproduction of commodities during crises is not absolute but relative. This means that an excess of commodities exists only in relation to demand effective in terms of money, but not at all in relation to the actual requirements of society. During crises the working masses suffer extreme want in respect of elementary necessities, their requirements are satisfied worse than at any other time. Millions of people starve because "too much" grain has been produced, people suffer from cold because "too much" coal has been produced. The working people are deprived of means of livelihood just because they have produced these means in too great a quantity. Such is the crying contradiction of the capitalist mode of production, under which, in the words of the French Utopian Socialist Fourier, "plenty becomes the source of poverty and want".

Upheavals in economic life often occurred under pre-capitalist modes of production, too. But they were called forth by some extraordinary elemental or social calamity: flood, drought, bloody wars or epidemics sometimes laid waste entire countries, dooming the population to famine and extinction. The radical difference, however, between these economic upheavals and capitalist crises is that the hunger and want caused by these upheavals were an outcome of the low level of development of production, the extreme shortage of products; whereas under capitalism crises are engendered by the growth of production alongside the wretched standard of living of the masses, by a relative "excess" of commodities produced.

As has been shown above (in Chapter IV), the *possibility* of crises is inherent even in simple commodity production and circulation. Only under capitalism, however, do crises become *inevitable*, for then production assumes a *social character* but the product of the socialised labour of many thousands and millions of workers passes into *private appropriation by the capitalists*. The contradiction between the social character of production and the private, capitalist form of appropriation of the results of production, which is the fundamental contradiction of capitalism, furnishes the *basis* for economic crises of overproduction. Thus the inevitability of crises is rooted in the system of capitalist economy itself.

The basic contradiction of capitalism shows itself as an antithesis between the organisation of production in the individual enterprises and the anarchy of production in society as a whole. In each separate factory the workers' labour is organised and subordinated to the single will of the employer. But in society as a whole, owing to the supremacy of the private ownership of the means of production, anarchy of production reigns and excludes planned development of the economy. Therefore the complex conditions which are necessary for the realisation of the social product under capitalist extended reproduction are inevitably broken up. These violations gradually accumulate until the onset of a crisis, when the process of realisation falls into complete disorder.

In their hunt for the highest possible profits the capitalists expand production, improve technique, introduce new machinery and throw vast masses of commodities on to the market. Acting in the same direction is the constant tendency of the rate of profit to fall, which arises from the growth in the organic composition of capital. The employers endeavour

to make up for the fall in the rate of profit by increasing the amount of profit, through expansion of the scale of production and the quantity of commodities produced. Thus capitalism has an inherent tendency to expand production, a tendency towards a huge growth in production potentialities. But as a result of the impoverishment of the working class and of the peasantry, the effective demand of the working people is relatively reduced. In consequence of this the expansion of capitalist production inevitably encounters the narrow limits of consumption by the bulk of the population. It ensues from the basic economic law of capitalism that the aim of capitalist production—the extraction of profit on an ever-increasing scale—inevitably comes into contradiction with the means for attaining this aim—the extension of production. Crisis is that moment in the course of capitalist extended reproduction when this contradiction appears in the acute form of overproduction of commodities, for which no outlet can be found.

> "The basis of the crisis lies in the contradiction between the social character of production and the capitalist form of appropriation of the results of production. An expression of this basic contradiction of capitalism is the contradiction between the colossal *growth* of capitalism's potentialities of production, calculated to yield the *maximum* of capitalist profit, and the relative *reduction* of the effective demand of the vast masses of the working people whose standard of living the capitalist always try to keep at the *minimum* level." (Stalin, "Political Report of the Central Committee to the XVIth Congress of the CPSU(B)", *Works*, vol. XII, pp. 250–1.)

The basic contradiction of capitalism comes to light in the class antagonism between proletariat and bourgeoisie. Characteristic of capitalism is the split between the two most important conditions of production: between the means of production, concentrated in the hands of the capitalists, and the direct producers, who are deprived of everything except their labour-power. This split is vividly revealed in the crises of overproduction, when a vicious circle is formed: on the one hand a surplus of means of production and products, and on the other a surplus of labour-power, masses of unemployed who are without the means of existence.

Crises are the inescapable companions of the capitalist mode of production. To abolish crises one must abolish capitalism.

Cyclic Character of Capitalist Reproduction

Capitalist crises of overproduction recur at definite intervals of time, every eight to twelve years. The inevitability of crises is determined by the general economic laws of the capitalist mode of production, which operate in all counties taking the capitalist path of development. At the same time the course of each crisis, the form in which it appears and its special features, depend also on the concrete conditions of development of the particular country concerned. Partial crises of overproduction, affecting particular branches of industry, occurred in Britain as far back as the end of the eighteenth century and the beginning of the nineteenth. The first industrial crisis which embraced a country's economy as a whole broke out in Britain in 1825. In 1836 a crisis began in Britain and then spread to the U.S.A. as well. The crisis of 1847–8, which embraced Great Britain, a number of countries of the European continent and the U.S.A., was, in essence, a world crisis. The crisis of 1857 affected the principal countries of Europe and America. It was followed by the crises of 1866, 1873, 1882 and 1890. The most serious was that of 1873, which marked the beginning of the transition from pre-monopoly capitalism to monopoly capitalism. In the twentieth century crises occurred in 1900–3 (this crisis began in Russia, where it was felt much more strongly than in any other country), in 1907, 1920–1, 1929–33, 1937–8 and 1948–9 (in the U.S.A.).

The period from the beginning of one crisis to the beginning of another crisis is called a *cycle*. A cycle is made up of four phases: crisis, depression, recovery and boom. The fundamental phase of a cycle is the crisis, which provides the starting point for a new cycle.

The *crisis* is that phase of a cycle in which the contradiction between the growth of the productive potentialities and the relative reduction of effective demand breaks out in an acute and destructive form. This phase of a cycle is characterised by overproduction of commodities which cannot find outlets, by a sharp fall in prices, by an acute shortage of means of payment and by stock exchange crashes which bring in their train mass bankruptcy, a sharp curtailment of production, a growth in unemployment, and a fall in wages. The fall in the prices of commodities, unemployment, direct destruction of machinery,

equipment and entire works—all this means a tremendous destruction of society's productive forces. Through the ruin and collapse of a large number of concerns and the destruction of part of the productive forces the crisis forcibly adapts, and that within a very short time, the magnitude of production to the magnitude of effective demand. "The crises are always but momentary and forcible solutions of the existing contradictions, violent eruptions, which restore the disturbed equilibrium for a while." (Marx, *Capital*, Kerr edition, vol. III, p. 292.)

The *depression* is the phase of the cycle which comes immediately after the crisis. This phase of the cycle is characterised by the fact that industrial production stagnates, prices of commodities are low, trade proceeds sluggishly, and there is an abundance of spare money capital. In the depression period the prerequisites are created for the ensuing recovery and boom. The accumulated stocks of commodities are partly destroyed and partly sold off at reduced prices. The capitalists endeavour to find a way out from the stagnant condition of production by reducing the costs of production. They seek this objective, first, by intensifying in every way the exploitation of the workers, further reducing wages and heightening the intensity of labour; second, by re-equipping their works, renewing their fixed capital, introducing technical improvements, all with the aim of making production profitable at the low prices which prevail owing to the crisis. The renewal of fixed capital gives a fillip to the growth of production in a number of branches. Enterprises which manufacture equipment receive orders and in their turn create a demand for all kinds of raw material and other materials. Thus there opens a way out of the crisis and depression and for transition to recovery.

Recovery is that phase of the cycle during which enterprises revive from their disturbed condition and proceed to an extension of production. Gradually the level of production attains its former height, prices rise, profits grow. Recovery passes into boom.

The *boom* is that phase of the cycle in which production rises above the highest point attained in the previous cycle, before the crisis. During a boom new industrial enterprises, railways, etc., are built. Prices rise; merchants try to buy as many commodities as possible in the expectation of a further rise in

prices, and by so doing stimulate manufacturers to expand production still further. The banks readily grant advances to manufacturers and traders. All this makes it possible to extend the scale of production and trade far beyond the limits of effective demand. In this way the conditions for the next crisis of overproduction are created.

Before the onset of a crisis production attains its highest level, but selling possibilities seem to be even greater. Overproduction already exists, but in a hidden form. Speculation pushes up prices and inflates the demand for commodities to an excessive degree. Goods surpluses pile up. Credit still further conceals the fact of overproduction: the banks go on financing industry and trade, artificially sustaining the expansion of production. When overproduction attains its highest point, the crisis breaks out. Then the whole cycle is repeated.

Each crisis gives a stimulus to mass renewal of fixed capital. Endeavouring to restore the profitability of their enterprises by means of a sharp reduction of prices, the capitalists, besides intensifying the exploitation of the workers, are obliged to introduce new machinery and machine-tools, new methods of production. At the expense of intensified exploitation of the working class, ruin of the small producers, absorption of many enterprises by their competitors, the large capitalists bring about new investments of capital. Thus, the way out of the crisis is effected by the internal forces of the capitalist mode of production. But with the transition to recovery and boom, violations of the conditions of reproduction, disproportions, contradictions between the growth of production and the narrow limits of effective demand, inevitably begin to pile up once more. In consequence, a new crisis of overproduction inevitably breaks out within a more or less definite space of time. "It is true that the periods in which capital is invested are different in time and place. But a crisis is always the starting-point of a large amount of new investment. Therefore it also constitutes, from the point of view of society, more or less of a new material basis for the next cycle of turnover." (K. Marx, *Capital*, Kerr edition, vol. II, p. 211.) In the decisive branches of large-scale industry the longevity of the basic means of production, taking into account not only physical but also moral depreciation, amounts on the average to about ten years. The inevitability of periodical mass renewal of fixed capital

serves as the *material basis for the periodicity of crises*, which recur regularly throughout the history of capitalism.

Every crisis prepares the ground for fresh and still deeper crises, so that as capitalism develops their destructive force and acuteness becomes greater and greater.

Agrarian Crises

Capitalist crises of overproduction, which bring in their train unemployment, a fall in wages, and reduction in the effective demand for agricultural produce, inevitably give rise to partial or general overproduction in the sphere of agriculture. Crises of overproduction in agriculture are called *agrarian crises*.

Behind the inevitability of agrarian crises is the same fundamental contradiction of capitalism which constitutes the basis of industrial crises. At the same time, agrarian crises have certain special features: they are usually more prolonged than industrial crises.

The agrarian crisis of the last quarter of the nineteenth century, which involved the West-European countries, Russia and eventually also the U.S.A., began in the first half of the 1870's and continued in one form or another down to the middle of the 1890's. It arose because the development of maritime transport and the extension of the network of railways began to bring to the markets of Europe large quantities of cheaper grain from America, Russia and India. The production of grain was less costly in America owing to the opening-up of new and fertile lands there and the availability of free land which bore no charge of absolute rent. Russia and India could export grain to Western Europe at low prices because the Russian and Indian peasants, crushed by unbearable taxes, were obliged to sell their grain very cheaply. The European capitalist tenant-farmers and peasants could not stand up to this competition, owing to the high rents exacted from them by the landlords. After the first world war, in the spring of 1920, owing to the great reduction in the effective demand of the population, an acute agrarian crisis broke out; it affected the non-European countries (U.S.A., Canada, Argentina, Australia) with particular violence. Agriculture had not yet recovered from this crisis when, at the end of 1928, clear signs of a new one made their appearance in Canada, U.S.A., Brazil and Australia. This crisis embraced the principal countries of the capitalist world exporting raw materials and foodstuffs. The crisis involved all branches of agriculture; it became interwoven with the industrial crisis of 1929–33 and continued down to the beginning of the second world war. After the second world war an agrarian crisis

again broke out in the largest countries exporting agricultural produce—the U.S.A., Canada, Argentina—and in a number of branches of agriculture in the Western European Countries.

The protracted nature of agrarian crises is due to the following main causes.

First, the landlords by virtue of the monopoly of private property in land compel the tenants to go on paying during agrarian crises the same ground-rent which they agreed to pay in their tenancy agreement. When the prices of agricultural commodities fall, the ground-rent is paid at the cost of a further reduction of the wages of agricultural workers, and also at the cost of the profits of the tenants, sometimes even by drawing on the capital advanced by them. Consequently it becomes extremely hard for them to emerge from the crisis by introducing technical improvements and reductions in the costs of production.

Secondly, agriculture under capitalism is a backward branch of the economy compared with industry. Private ownership of land, survivals of feudal relations, the necessity of paying absolute and differential rent to the landlords—all these are so many obstacles in the way of a free influx of capital into agriculture, and hindrances to the development of the productive forces. The organic composition of capital is lower in agriculture than in industry; fixed capital, the mass-scale renewal of which is the material basis of the periodicity of industrial crises, plays a very much smaller role in agriculture than in industry.

Thirdly, the petty producers (the peasants) strive during crises to keep up their former level of production, so as at all costs to hang on to their bit of land, whether it be their own property or leased; this they do at the price of exhausting labour, underfeeding and destructive use of the soil and cattle. This still further increases the overproduction of agricultural produce.

Thus the common basis for the protracted character of agrarian crises is the monopoly of private property in land, the feudal survivals connected with this and the extreme backwardness of agriculture in capitalist countries.

The main burden of agrarian crises falls on the bulk of the peasantry. An agrarian crisis ruins a mass of petty commodity producers; breaking up established property relations, it hastens

the differentiation of the peasantry and the development of capitalist relations in agriculture. At the same time agrarian crises have a devastating effect on agriculture in the capitalist countries, causing a diminution in the sown area, a fall in the level of agricultural technique, and a lowering of the yield of agricultural crops and of the productivity of stockbreeding.

Crises and the Sharpening of the Contradictions of Capitalism

Economic crises, in which all the contradictions of the capitalist mode of production violently explode, inevitably lead to a further deepening and sharpening of these contradictions.

As a rule, capitalist crises of overproduction are *universal in character*. Beginning in a particular branch of production, they rapidly embrace the entire national economy. Arising first in one country or a few countries, they spread over the whole capitalist world.

Every crisis leads to a sharp decline in production, a fall in the wholesale prices of commodities and in the price of shares on the exchanges, a decline in the volume of both domestic and external trade. The scale of production falls to a level which prevailed a number of years previously. In the nineteenth century the level of the economic life of capitalist countries was thrown back during crises by three to five years, in the twentieth century by decades.

The output of coal in the U.S.A. fell during the crisis of 1873 by 9·1 per cent, during that of 1882 by 7·5 per cent, during that of 1893 by 6·4 per cent, during that of 1907 by 13·4 per cent, during that of 1920–1 by 27·5 per cent and during that of 1929–33 by 40·9 per cent. The production of pig-iron in the U.S.A. fell by the following amounts during the crises indicated: 1873—27 per cent, 1882—12·5 per cent, 1893—27·3 per cent, 1907—38·2 per cent, 1920–1—54·8 per cent, 1929–33—79·4 per cent.

In Germany the total volume of industrial production fell during the crisis of 1873 by 6·1 per cent, 1890—3·4 per cent, 1907—6·5 per cent, and 1929–33—40·1 per cent.

In Russia during the crisis of 1900–03 the smelting of iron declined by 17 per cent, the output of oil by 10 per cent, the rolling of rails by 30 per cent, and the production of sugar by 19 per cent.

The crisis of 1857 threw the U.S.A. back two years in output of coal, four years in production of pig-iron, two years in exports and three years in imports. The crisis of 1929 threw the U.S.A. back

28 years in output of coal, 36 years in output of pig-iron, 31 years in outputs of steel, 35 years in exports and 31 years in imports.

Britain was thrown back by the 1929 crisis 35 years in coal output, 76 years in pig-iron output, 23 years in steel output and 36 years in external trade.

Economic crises vividly reveal the *predatory* character of capitalism. During every crisis, while millions of people are in extreme want, doomed to poverty and hunger, vast quantities of commodities are destroyed because they cannot find a market—wheat, potatoes, milk, cattle, cotton. Whole factories, shipyards, blast-furnaces are closed down or sold for scrap, grain crops and technical crops are destroyed and plantations of fruit trees are cut down.

During three years of the 1929–33 crisis 92 blast-furnaces were pulled down in the U.S.A., 72 in Britain, 28 in Germany and 10 in France. The tonnage of sea-going vessels destroyed in those years amounted to more than 6½ million registered tons.

The destructive effect of agrarian crises is clear from the following figures. In the U.S.A. between 1926 and 1937 more than two million farms were compulsorily sold for debt. The revenue from agriculture shrank from 6·8 milliard dollars in 1929 to 2·4 milliard dollars in 1932. During the same period sales of agricultural machinery and equipment were reduced from 458 million dollars a year to 65 million (one-seventh), and the demand for artificial fertilisers fell by nearly a half. The U.S. Government took all kinds of steps to reduce agricultural production. In 1933 10·4 million acres of cotton crop were destroyed by ploughing over, 6·4 million pigs were bought and destroyed by the State, and wheat was burned in the fire-boxes of locomotives. In Brazil about 22 million sacks of coffee were destroyed, and in Denmark 117 thousand head of cattle.

Crises cause incalculable sufferings to the working class, the bulk of the peasantry and the working people as a whole. They bring about *mass unemployment*, which condemns hundreds of thousands and millions of people to enforced idleness, poverty and hunger. The capitalists make use of unemployment to intensify in every way the exploitation of the working class, and sharply to reduce the standard of living of all the working people.

The number of workers employed in manufacturing industry in the U.S.A. fell by 11·8 per cent at the time of the 1907 crisis. During the 1929–33 crisis the number of workers in America's manufacturing industry decreased by 38·8 per cent, and the total wages bill fell

by 57·7 per cent. According to American statisticians, 43 million man-years were lost between 1929 and 1938 as a result of unemployment.

Crises enormously increase the insecurity of the working people's lives, their fear of the morrow. Through spending years out of work, workers lose their skill, and after the crisis has ended many of them cannot return to industry any more. The housing conditions of the working people are greatly worsened; the number of homeless people wandering about the country in search of work increases. During crises the number of suicides caused by desperation rises markedly, and destitution and crime increase.

Crises lead to a sharpening of *class contradictions* between the proletariat and the bourgeoisie, between the bulk of the peasantry and the landlords, usurers and kulaks who exploit them. During a crisis the working class is deprived of many of the achievements which it has won through long and hard struggle against the exploiters and the bourgeois State. This shows the workers that the only way to salvation from want and hunger lies through abolishing capitalist wage slavery. The broadest masses of the proletariat, doomed by crises to tremendous privations, acquire class consciousness and revolutionary determination. The inability of the bourgeoisie to control the productive forces of society undermines the faith of the petty-bourgeois strata of the population in the enduring nature of the capitalist order. All this leads to a sharpening of the *class struggle* in capitalist society.

The bourgeois State renders aid to the capitalists during crises, in the form of subsidies, the cost of which is paid in the long run by the working masses. Using its apparatus of coercion and compulsion, the State helps the capitalists to wage an offensive against the standard of living of the working class and the peasantry. All this intensifies the impoverishment of the working masses. At the same time, crises reveal the complete incapacity of the bourgeois State to curb to any degree the elemental laws of capitalism. In capitalist countries it is not the State that controls the economy but, on the contrary, the State itself is in the power of capitalist economy, in subjection to big capital.

Crises are the clearest indication that the productive forces brought into being by capitalism have outgrown the framework

of bourgeois production relations, so that the latter have become a brake on the further growth of the productive forces.

> "The crisis shows that present-day society could produce an incomparably greater quantity of products, which could go to improve the lives of all the working people, if only the land, the factories, the machines, etc., were not in the grip of a handful of private owners who draw millions from the poverty of the people." (Lenin, "Lessons of the Crisis", *Works*, Russian edition, vol. v, p. 76.)

Every crisis brings nearer the downfall of the capitalist mode of production.

Inasmuch as crises exhibit with particular clarity and sharpness the insoluble contradictions of capitalism, testifying to the inevitability of its doom, bourgeois economists try in every way possible to conceal the true nature and causes of crises. Endeavouring to gloss over the inevitability of crises under capitalism, they usually explain crises as resulting from accidental causes which they claim could be eliminated while maintaining the capitalist system of economy intact.

With this purpose, the economists of the bourgeoisie proclaim the ultimate cause of crises to be either a violation in the proportionality between branches of production or the lagging of consumption behind production, and they propose as a means of curing capitalism of crises that such types of "consumption" be guaranteed as armaments drives and wars. In fact, neither disproportionality of production nor the contradiction between production and consumption are accidental defects of the capitalist mode of production, but inevitable ways in which the basic contradiction of capitalism manifests itself, the contradiction which cannot be eliminated while capitalism exists. Certain bourgeois economists have gone so far as to declare that crises are caused by sun-spots, on the grounds that these exert an influence on the harvest and so on the whole of economic life.

In the intervals between crises the defenders of the bourgeoisie usually come out with sweeping statements to the effect that crises are no more and capitalism has taken the road of crisis-free development; the very next crisis shows up the mistakenness of such statements. Life invariably reveals the complete bankruptcy of such prescriptions for curing capitalism of crises.

The Historical Tendency of Capitalist Development. The Proletariat as the Grave-digger of Capitalism

After capitalism had become the dominant system, the concentration of property in a few hands advanced with giant strides. The development of capitalism leads to the ruin of the petty producers, who fall into the ranks of the army of wage-workers. Along with this, the competitive struggle among the capitalists becomes acute, as a result of which one capitalist lays low many others. The concentration of capital means concentration of enormous wealth in the hands of an ever narrower circle of persons.

In developing large-scale production, capitalism gives birth to its own grave-digger in the person of the working class, which comes forward to assume the role of guide and leader of all the working and exploited masses. The development of industry is accompanied by the growth of the proletariat, in numbers, solidarity, consciousness and degree of organisation. The proletariat advances ever more resolutely in struggle against capital. The development of capitalist society, which is accompanied by a sharpening of the antagonistic contradictions inherent within it and by an intensification of class struggle, prepares the conditions necessary for the victory of the proletariat over the bourgeoisie.

The theoretical expression of the fundamental interests of the working class is *Marxism—scientific socialism*—which is an integral, harmonious outlook on the world. Scientific socialism teaches the proletariat to unite for class struggle against the bourgeoisie. The class interests of the proletariat coincide with the interests of the progressive development of human society, they merge with the interests of the overwhelming majority of society, for the revolution of the proletariat means the abolition not of this or that form of exploitation but of all exploitation in general.

While at the dawn of capitalism a few usurpers in the shape of the capitalists and landlords expropriated the masses of the people, the development of capitalism leads inevitably to the expropriation of the usurpers by the masses of the people. This task is carried out by the socialist revolution, which socialises the means of production and sweeps away capitalism along with its crises, unemployment and poverty of the masses.

> "The monopoly of capital becomes a fetter upon the mode of production which has sprung up and flourished along with and under it. Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist property sounds. The expropriators are expropriated." (Marx, *Capital*, Kerr edition, vol. I, p. 837.)

Such is the *historical tendency* of development of the capitalist mode of production.

BRIEF CONCLUSIONS

(1) Economic crises are crises of overproduction. Underlying crises is the contradiction between the social character of production and the private capitalist form of appropriation of the products of labour. The forms in which this contradiction is expressed are, first, the antithesis between the organisation of production within the individual capitalist enterprises and the anarchy of production in society as a whole, and, second, the contradiction between the huge growth in the productive potentialities of capitalism and the relative reduction in the purchasing capacity of the working masses. The basic contradiction of capitalism shows itself in the class antagonism between the proletariat and the bourgeoisie.

(2) The period from the beginning of one crisis to the beginning of another is called a cycle. A cycle consists of the following phases: crises, depression, recovery, boom. The material foundation of the periodicity of capitalist crises is the necessity for periodical renewal of fixed capital. Interwoven with industrial crises are agrarian crises, which are distinguished by their protracted character owing to the monopoly of private property in land, the existence of feudal survivals and the backwardness of agriculture under capitalism.

(3) Capitalist crises mean destruction of the productive forces on a gigantic scale. They bring with them incalculable sufferings for the working masses. It is in crises that there is most clearly revealed the historically-limited character of the bourgeois system, the inability of capitalism to control any further the productive forces which have matured within its

womb. In order to abolish crises it is necessary to abolish capitalism.

(4) The historical tendency of capitalist development is, on the one hand, that it develops the productive forces and socialises production, thus creating the material prerequisites for Socialism, and, on the other hand, that it gives birth to its own grave-digger in the person of the proletariat, which organises and heads the revolutionary struggle of all the working people for liberation from the yoke of capital.

Part Two

B. MONOPOLY CAPITALISM—IMPERIALISM

CHAPTER XVIII

IMPERIALISM—THE HIGHEST STAGE OF CAPITALISM. THE BASIC ECONOMIC LAW OF MONOPOLY CAPITALISM

The Transition to Imperialism

Pre-monopoly capitalism, with free competition predominating, attained the apex of its development in the 1860's and 1870's. During the last third of the nineteenth century there took place the transition from pre-monopoly to monopoly capitalism. Monopoly capitalism finally took shape towards the end of the nineteenth and the beginning of the twentieth centuries.

Monopoly capitalism, or *imperialism*, is the highest and last stage of capitalism, with the replacement of free competition by the dominance of monopolies as its fundamental distinguishing feature.

The transition from pre-monopoly capitalism to monopoly capitalism (imperialism) was prepared by the entire process of development of the productive forces and relations of production in bourgeois society.

The last third of the nineteenth century was marked by large-scale technical advances and by the growth and concentration of industry. In metallurgy, new methods of smelting steel were introduced widely (Bessemer, Thomas Martin). A rapid spread of new types of prime mover—the dynamo, the internal combustion engine, the steam turbine, the electric motor—accelerated the development of industry and transport. The progress made in science and technique made possible the production of electric power on a mass scale in fuel-burning power stations and later in large hydro-electric stations. The use of electric power led to the creation of a number of new branches of the chemical industry and of metallurgy. The use of chemical methods was extended in a number of branches and processes of production. Improvements in the internal combustion engine made possible the appearance and spread of motor transport and later of aviation.

In the middle of the nineteenth century the predominant

place in the industry of the capitalist countries was still occupied by light industry. Numerous enterprises of comparatively small size belonged to individual owners and the relative importance of joint-stock companies was comparatively slight. The economic crisis of 1873 brought about the collapse of many businesses of this kind and gave a strong fillip to the concentration and centralisation of capital. The predominant role in the industry of the main capitalist countries now began to be played by heavy industry—above all, metallurgy and engineering, and also the mining industry, for the development of which enormous amounts of capital were needed. The spread of joint-stock companies on a wide scale still further increased the centralisation of capital.

The volume of world industrial production grew threefold between 1870 and 1900. World smelting of steel grew from 0·5 million tons in 1870 to 28 million tons in 1900, and world smelting of pig-iron from 12·2 million tons to 40·7 million. The development of power engineering, metallurgy and chemistry led to a growth in the world output of coal (from 218 million tons in 1870 to 769 million in 1900) and of petroleum (from 0·8 million tons to 20 million tons). The growth of industrial production was closely connected with the development of railway transport. In 1835, ten years after the construction of the first railway, there were 1,500 miles of railway track in the world; in 1870 there were over 125,000, and in 1900 500,000. Maritime routes came to be served by large vessels driven by steam-operated machinery and internal combustion engines.

During the nineteenth century the capitalist mode of production spread rapidly throughout the world. At the beginning of the 1870's the oldest bourgeois country, Britain, still produced more cloth, smelted more pig-iron and mined more coal than the U.S.A., Germany, France, Italy, Russia and Japan taken together. Britain held the leading place in world industrial production and an undivided monopoly of the world market. Towards the end of the nineteenth century the situation underwent a marked change. In the younger capitalist countries large-scale industries of their own had grown up. Owing to this, Britain lost her industrial leadership and her monopoly position on the world market. In respect of volume of industrial production the U.S.A. took first place in the world, and Germany first place in Europe. Russia was moving rapidly along the path of industrial development, though this was hindered by the numerous survivals of serfdom in the country's

economic and social system and by the Tsarist régime, which was rotten through and through.

As the transition to imperialism took place the contradictions between the productive forces and the production relations of capitalism came to assume ever more acute forms. The subjection of production to the capitalists' hunt for the highest possible profit created very many barriers to the development of the productive forces. Economic crises of overproduction began to recur more frequently, their destructive force increased, and the army of unemployed became more numerous. Alongside the growth of poverty and misery among the working masses of town and country there took place an unprecedented increase in the wealth concentrated in the hands of a small group of exploiters. The sharpening of the irreconcilable class contradictions between the bourgeoisie and the proletariat led to intensification of the economic and political struggle of the working class.

During the period of transition to imperialism the largest capitalist Powers of Europe and America made themselves masters of huge colonial possessions by force and fraud. The ruling circles of the capitalistically developed countries transformed the majority of the inhabitants of the globe into colonial slaves who hated their oppressors and struggled against them. Colonial conquests enormously extended the field for capitalist exploitation; at the same time the degree of exploitation of the working masses steadily grew. The extreme sharpening of the contradictions of capitalism found expression in devastating imperialist wars, which carried off a host of human lives and destroyed a vast quantity of material wealth.

The historical credit for having undertaken a Marxist analysis of imperialism as the highest stage of capitalism, and at the same time as the eve of the socialist revolution of the proletariat, belongs to V. I. Lenin. In his classic work *Imperialism, the Highest Stage of Capitalism*, and in a number of other works, mostly written during the first world war, Lenin summed up the development of world capitalism in the half-century which had elapsed since Marx's *Capital* appeared. Basing himself on the laws, discovered by Marx and Engels, of the rise, development and decline of capitalism, Lenin gave an exhaustive scientific analysis of the economic and political essence of imperialism, its laws and its insoluble contradictions.

In Lenin's classic definition, the fundamental economic features of imperialism are the following:

> "(1) The concentration of production and capital developed to such a high stage that it created monopolies which play a decisive role in economic life; (2) the merging of bank capital with industrial capital and the creation, on the basis of this finance capital, of a financial oligarchy; (3) the export of capital, which has become extremely important, as distinguished from the export of commodities; (4) the formation of international capitalist monopolies, which share the world among themselves; and (5) the territorial division of the whole world among the greatest capitalist Powers is completed." (Lenin, "Imperialism, the Highest Stage of Capitalism", *Selected Works*, 1950, English edition, vol. 1, Pt. 2, p. 525.)

Concentration of Production and Monopolies. Monopolies and Competition

Free competition, which prevailed in the pre-monopoly stage of capitalism, brought about a rapid process of concentration of production in ever larger enterprises. The operation of the law of concentration and centralisation of capital inevitably led to the victory of large and very large enterprises, as compared with which the small and medium enterprises came to play an ever more subordinate role. In its turn the concentration of production prepared the transition from the dominance of free competition to that of monopolies which abolished freedom of competition and at the same time made the competitive struggle in the capitalist world especially fierce and devastating.

In *Germany*, there were concentrated in enterprises with more than fifty workers each, in 1882 22 per cent of all manual and clerical workers, in 1895 30 per cent, in 1907 37 per cent, in 1925 47·2 per cent, and in 1939 49·9 per cent. The share of the largest enterprises (those employing more than a thousand) in the whole of industry grew from 1907 to 1925 as follows: in terms of the numbers employed, from 9·6 per cent to 13·3 per cent and in horse-power, from 32 per cent to 41 per cent.

In 1952 in Western Germany 84·6 per cent of all workers were concentrated in enterprises with 50 or more workers, and of these, 34·1 per cent were in the largest enterprises, with 1,000 and upwards in employment.

In the *U.S.A.* in 1904 the largest enterprises, those with production

valued at a million dollars or over, made up 0·9 per cent of the total number of enterprises; in these enterprises 25·6 per cent of the total number of workers were employed and they contributed 38 per cent of the entire gross output of industry. In 1909 the largest enterprises, representing 1·1 per cent of the total, employed 30·5 per cent of all workers in industry and provided 43·8 per cent of the entire gross industrial output. In 1939 the largest enterprises, making up 5·2 per cent of the total number, concentrated 55 per cent of all the workers employed and 67·5 per cent of the entire gross output of industry. A still narrower group of gigantic industrial corporations, each with assets amounting to more than 100 million dollars, produced in 1954 47 per cent of the total amount of industrial production and received 63 per cent of the total volume of profits.

In *France* in 1952 more than 48 per cent of the total wage bill was paid by very large enterprises numbering only 0·5 per cent of the total number.

Russia's industry was marked by a high degree of concentration. In Russia in 1879 large enterprises (with more than 100 workers each) comprised 4·4 per cent of the total and in them was concentrated 54·8 per cent of the total production. In 1903 76·6 per cent of all the industrial workers were concentrated in large enterprises, and they were responsible for the overwhelming bulk of industrial production.

Concentration of production takes place most quickly in heavy industry and in new branches of industry (chemical, electrical engineering, automobile, etc.) and lags behind in light industry, in which in every capitalist country there are many small and medium enterprises.

One of the forms of concentration of production is *combination*, i.e., the uniting in one enterprise of various forms of production which constitute either consecutive stages in the working up of a raw material (e.g., metallurgical combines, which unite the mining of the ore, the smelting of the pig-iron, the conversion of the iron into steel and the manufacture of rolled articles), or which are auxiliary to one another (e.g., use of by-products of an industry). Combination gives the large enterprises still greater preponderance in the competitive struggle.

At a certain level of development the concentration of production brings about monopoly in real earnest. A few dozen giant concerns can more easily come to an agreement amongst themselves than can hundreds and thousands of small ones. On the other hand, in the process of competitive struggle which is played out among themselves by the largest concerns, victory goes to the industrial giants which dispose of enormous amounts of profit, and monopoly ensures high profits. Thus free

competition gives place to monopoly. This change-over constitutes the economic essence of imperialism. The bringing about of monopoly by concentration of production is a regular feature of the present stage of capitalist production.

Monopoly means an agreement, alliance or association between capitalists who concentrate in their hands the production and sale of a substantial part of the production of one or a number of branches, in order to fix high prices for commodities and obtain monopolist high profits. Sometimes monopolies are individual very large concerns which occupy a dominant position in a particular branch of industry.

The simplest forms of monopoly are short-term agreements about selling-prices. These are known by a variety of names: conventions, corners, rings, etc. More advanced forms of monopoly are cartels, syndicates, trusts and concerns. A *cartel* is a monopolistic alliance, the partners in which agree on conditions of sale and terms of payment, divide the markets amongst themselves, decide the quantity of goods to be produced, and fix prices. The quantity of goods which each partner in a cartel is allowed to produce and sell is called his *quota*; exceeding the quota is punished by payment of a fine to the common fund of the cartel. A *syndicate* is a monopoly organisation in which the sale of goods, and sometimes also the purchase of raw material, is effected through a common office. A *trust* is a monopoly in which the ownership of all the enterprises is unified, their owners having become shareholders who draw profit in accordance with the number of shares they hold. A trust is headed by a management which is in charge of all production, sale of goods and finance in respect of the previously independent enterprises. Trusts frequently form part of wider unions called concerns. A *concern* is an association of a number of enterprises in different branches of industry, commercial firms, banks, transport and insurance companies, based upon common financial dependence on a particular group of very big capitalists.

Monopolies occupy the commanding heights in the economies of the capitalist countries. They embrace heavy industry and also many branches of light industry, railway and river transport, banks, home and foreign trade and have also brought agriculture under their yoke.

Iron and steel production in the *U.S.A.* is dominated by eight monopolies which in 1953 controlled 83 per cent of all the country's steel-production capacity; the two largest of them, the United States Steel Corporation and the Bethlehem Steel Corporation, disposed of 49 per cent of the total productive capacity. The oldest monoply in the U.S.A. is the petroleum trust, Standard Oil. In the

motor-car industry three firms are of decisive importance: General Motors, Ford and Chrysler. In the electrical engineering industry the dominant position is occupied by two firms: General Electric and Westinghouse. The chemical industry is controlled by the Dupont de Nemours concern and the aluminium industry by the Mellon concern.

In *Britain* the role played by monopoly associations grew especially after the first world war, when cartel associations arose in the textile, coal and iron and steel industries and in a number of new industries. Imperial Chemical Industries controls about nine-tenths of the total production of basic chemicals, about two-fifths of that of dyes and almost the entire production of nitrogen in the country. It is closely connected with the principal branches of British industry and in particular with armaments concerns.

In *Germany* cartels became widespread at the end of last century. In the period between the two world wars the country was dominated by the Steel Trust ("Vereinigte Stahlwerke"), which employed about 200,000 manual and clerical workers, the coal monopolies, the Krupp arms concern, and the "General Electric" (A.E.G.) and Siemens electrical equipment concerns. In Western Germany in 1952 the large joint-stock companies (those with capital in excess of 10 million marks) held 74 per cent of all the capital of joint-stock companies. By 1955 their share of total share capital had grown to 80 per cent. In the mining industry the largest firms owned 90 per cent of all the share capital, in iron and steel 81 per cent, and in the oil industry 99 per cent. The capitals of the three companies which succeeded the Chemical Trust were three times as large as the capitals of all the remaining companies in the chemical industry of Western Germany. In the electrical engineering industry eight large firms owned 82 per cent of the share capital. Two of the largest of them, "General Electric" (A.E.G.) and Siemens, together with the firms under their control, possessed 75 per cent of all the share capital in the electrical engineering industry.

In *France* at the present time the entire production of aluminium is concentrated in the hands of a single company. One firm controls 80 per cent of the entire production of dye-stuffs; 75 per cent of shipbuilding is in the hands of two companies. Three companies control 72 per cent of the cement industry, 90 per cent of the manufacture of rubber tyres, 65 per cent of the sugar industry. In enterprises belonging to four companies are produced 96 per cent of the total output of cars. Five companies control 70–75 per cent of all steel production, 90 per cent of oil-refining, and 50 per cent of cotton textiles.

In *Italy*, in *Japan* and even in such small countries as *Belgium*, *Sweden* and *Switzerland*, monopoly organisations hold the commanding heights in industry.

In pre-revolutionary *Russia* large monopolies embraced first of all the chief branches of heavy industry. The "Prodamet" syndicate (association for sale of the products of metallurgical enterprises)

which arise in 1902, controlled the marketing of more than four-fifths of Russia's iron and steel output. In 1904 the "Prodvagon" syndicate was organised; this held an almost complete monopoly of the production and marketing of railway trucks. A syndicate of the same kind united the locomotive-making works. The "Produgol" syndicate was formed in 1904 by the largest coal enterprises of the Donbas, which belonged to French and Belgian capital; it embraced three-quarters of the entire coal output of the Donbas.

Bourgeois economists, trying to whitewash present-day capitalism, affirm that the spread of monopoly tends to cure the bourgeois system of such evils as competition, anarchy of production and crises. In fact, however, not only can imperialism not eliminate competition, anarchy of production and crises, but it renders still more acute all the contradictions of capitalism.

Lenin showed that imperialism is incapable of reconstructing capitalism from top to bottom. Alongside the predominant role of monopolies there continue to exist in all capitalist countries numerous medium and small enterprises and masses of petty producers—peasants and craftsmen.

The monopolies formed in certain branches of industry intensify the chaotic character which is inherent in capitalist economy as a whole. "The monopolies, which have grown out of free competition, do not eliminate the latter but exist over it and alongside of it, and thereby give rise to a number of very acute, intense antagonisms, frictions and conflicts." (Lenin, "Imperialism", *Selected Works*, 1950, English edition, vol. 1, Pt. 2, p. 524.)

First, competition does not cease *inside* the monopolies. The members of syndicates and cartels fight among themselves for the most profitable markets and for the largest share (quota) of production and sales. Within the trusts and concerns a struggle goes on over the managing positions, over the controlling interests and over the distribution of profits.

Secondly, competition goes on *between the monopolies*: both between monopolies in one and the same branch and between monopolies in different branches which supply each other with goods (e.g., the steel and motor-car trusts) or which produce goods that can be substituted for one another (coal, petroleum, electrical power). Under conditions of a limited capacity of the internal market the monopolies which produce consumer goods wage a ferocious struggle for outlets for their goods.

Thirdly, competition goes on *between the monopolies and the enterprises outside the monopolies*. The monopolised branches stand in a privileged position relative to others. The monopolies take all possible measures to strangle "outsider", "pirate" enterprises which do not form part of the monopoly associations. The dominance of monopoly imparts to the competitive struggle a particularly destructive and predatory character. The monopolies unleash for the purpose of strangling a rival all possible methods of direct coercion, bribery and blackmail, resort to complicated financial intrigues and make extensive use of the State apparatus.

The dominance of monopoly leads to further socialisation of production. But the fruits of this socialisation fall into the hands of a few monopolists, whose oppression of the remainder of the population becomes particularly heavy. There takes place a further deepening of the basic contradiction of capitalism —the contradiction between the social character of production and the private capitalist form of appropriation, as a result of which crises become still more devastating.

Concentration and Monopoly in Banking. The New Role of the Banks

Our conception of the actual power and importance of present-day monopoly cannot be sufficiently complete unless note be taken of the role of the banks. The concentration of capital and the transition from free competition to monopoly take place in banking as in industry. At first the banks served mainly as intermediaries for payments. With the development of capitalism the activity of the banks as traders in capital became more extensive. The accumulation of capital and concentration of production in industry led to the concentration in the banks of enormous amounts of spare money seeking profitable application. The share of the large-scale banks in the total amount of bank turnover steadily grew.

In banking as in industry, concentration leads to monopoly. By means of share purchases, granting of credit, etc., the largest banks subject the small ones to themselves. Once having acquired a monopoly position, the big banks conclude agreements among themselves about the division of spheres of influence. Monopoly unions of banks are formed. Each union

of this kind rules over dozens, and sometimes even hundreds of smaller banks, which become in fact branches of the big ones. Through a widespread network of branches the big banks gather together in their safes the resources of a great number of enterprises. Nearly all the money capital of the capitalist class and the savings of other strata of the population are placed at the disposal of small groups of banking magnates.

In the thirty-three years before the first world war (1880–1913) the mere increase in the total of deposits in the banking systems of the four largest capitalist States—the U.S.A., Germany, Britain and France—amounted to 127 milliard marks. From then onward the increase in deposits was still more rapid: in a period less than half as long, from 1913 to 1928, deposits in these countries grew by 183 milliard marks.

In the *U.S.A.* the share taken by the twenty largest banks in the total deposits of all the banks was in 1900 15 per cent, in 1929 19 per cent, in 1939 27 per cent and in 1952 29 per cent. The total number of commercial banks in the U.S.A. declined between 1920 and the end of 1954 from 30,000 to 14,400. In *Britain* the total balances of the five biggest banks amounted in 1900 to 28 per cent, in 1916 to 37 per cent, in 1929 to 73 per cent and in 1952 to 79 per cent of the total balances of all the British banks of deposit. In *France* in 1952 six banks of deposit held 66 per cent of the total deposits in all the French banks. In *Germany* on the eve of the first world war, about one half of the total deposits in all the banks were concentrated in the big Berlin banks, and in 1929–32 two-thirds.

The concentration of industry and the formation of banking monopolies leads to an essential alteration in mutual relations between the banks and industry. As the size of enterprises grows, ever greater becomes the importance of the large-scale, long-term credits granted by the banks to the industrial capitalists. The growth in the amount of deposits placed at the disposal of the banks creates extensive possibilities for such long-term investment of banking resources in industry. The most widespread form in which the money resources of the banks are invested in industry is the purchase of shares in various enterprises. The banks facilitate the formation of joint-stock enterprises by undertaking the reorganisation of private capitalist enterprises into joint-stock companies and the formation of new joint-stock companies (promotion). The sale and purchase of shares is carried out to an ever-increasing extent through the medium of the banks.

The interests of the banks and of the industrial enterprises become merged ever closer and closer. When a bank finances a few large enterprises in a particular branch of industry, it becomes interested in monopolistic agreements between these enterprises and facilitates such agreements. In this way the banks greatly intensify and accelerate the process of concentration of capital and formation of monopolies. The transformation of the banks from modest intermediaries into a handful of all-powerful monopolists is one of the fundamental processes of the transition from the capitalism of the epoch of free competition to monopoly capitalism.

Finance Capital and the Financial Oligarchy

As a result of the banks becoming joint owners of industrial, commercial and transport enterprises and acquiring their shares and bonds, and of industrial monopolies in their turn possessing shares in the banks connected with them, an interweaving of monopoly banking and industrial capital takes place and a new kind of capital arises—finance capital. *Finance capital* is the capital of banking and industrial monopolies which has become knit together into one. The epoch of imperialism is the epoch of finance capital.

Defining finance capital, Lenin emphasised three factors of primary importance:

> "The concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry—such is the history of the rise of finance capital and such is the content of this term." (Lenin, "Imperialism", *Selected Works*, 1950, English edition, vol. 1, Pt. 2, p. 478.)

The coalescence of bank capital with industrial capital is strikingly expressed in the personal union of the heads of the banking and industrial monopolies. The same persons head the largest monopoly associations in banking, industry, commerce and the other branches of capitalist economy.

In *Germany* before the first world war the six biggest Berlin banks had their representatives serving as directors of 344 industrial enterprises and as members of 407 more; 751 companies in all. On the other hand, fifty-one of the biggest industrialists were members of the governing bodies of these six banks. Later on, this personal union

developed still further. In 1932 there were seventy of the biggest industrialists on the governing bodies of the three principal Berlin banks. In the *U.S.A.* in 1950 a narrow group made up of 400 industrialists and bankers occupied one-third of the 3,705 of the directors' posts in 250 of the largest corporations (joint-stock companies), possessing 42 per cent of all the capital in the country.

In every capitalist country a small handful of the biggest bankers and industrial monopolists hold in their grasp all the vitally important branches of the economy and dispose of the overwhelming bulk of social wealth. Management by capitalist monopolies inevitably becomes the rule of a *finance oligarchy* (the Greek word "oligarchy" means literally "the rule of a few"). Imperialism is marked by the omnipotence of the monopoly trusts and syndicates, the banks and the finance oligarchy in the developed capitalist countries.

The domination of the finance oligarchy is effected in the economic sphere above all by means of the so-called "holding system". This means that a big financier or group of financiers controls the principal joint-stock company (the "parent company") which heads the concern; this company in its turn, through owning the controlling interests in them, dominates the "daughter companies" which depend on it; "granddaughter companies" are similarly situated, and so on. By means of this system the financial bosses are able to control vast sums of the capital of others.

By means of a widely ramified system of holdings, the eight biggest financial groups in the U.S.A.—Morgan, Rockefeller, Kuhn-Loeb, Mellon, Dupont, and the Chicago, Cleveland and Boston groups—occupy the dominant position in that country's whole economy. The Morgan group's sphere of influence in 1948 embraced banks and corporations with a total capital of 55 milliard dollars; the Rockefeller group controlled 26·7 milliard, the Dupont group 6·5 milliard and the Mellon group 6 milliard. In 1955 the total number of corporations in the U.S.A. exceeded 660,000. Over 75 per cent of the total amount of the assets of all corporations was concentrated, by means of the holding system, in the hands of 66 milliardaire corporations (i.e., corporations with assets of a milliard dollars and upwards), which disposed directly of 28·3 per cent of the total amount of assets.

The finance oligarchy, making use of its effective monopoly position, obtains vast and ever growing amounts of profit from promotion (i.e., the creation of joint-stock companies), from

issuing shares and bonds, from floating State loans and from profitable State orders. Finance capital, concentrated in a few hands, levies an ever-increasing tribute from society.

The financial oligarchy rules in the political sphere too. Both the internal and external policies of the bourgeois states are subordinated to the self-interest of the biggest monopolies.

Export of Capital

Characteristic of pre-monopoly capitalism, in which free competition was predominant, was the export of *goods*. Characteristic of imperialist capitalism, with the domination of monopoly, became the export of *capital*.

The *export of capital* is undertaken for the purpose of obtaining higher profits. It occurs in two main forms: either by the making of loans to governments, towns and banks in other countries, or by the establishing abroad of industrial, commercial and banking enterprises, obtaining of concessions, building of railway lines, and also the buying up cheap of already existing enterprises in countries weakened, for example, by war.

The export of capital is caused, first, by the domination of monopoly in all the countries of developed capitalism and, second, by the monopoly position of a few rich countries in which the accumulation of capital has attained very great dimensions. A vast "superabundance of capital" came into being in these countries on the threshold of the twentieth century.

The "superabundance of capital" in developed capitalist countries is negative in character, for the low standard of living of the masses in these countries sets limits to the further growth of production, and the lagging of agriculture behind industry becomes increasingly marked, together with the unevenness of development of various branches of economy generally. If only capitalism could raise up agriculture and could increase the standard of living of the working masses, then there could be no question of a "superabundance of capital". But then capitalism would not be capitalism, for both unevenness of development and a semi-starvation standard of living for the mass of the population are fundamental conditions and prerequisites of this mode of production. The superabundance of

capital in capitalistically developed countries is thus only relative.

> "The necessity for exporting capital arises from the fact that in a few countries capitalism has become 'overripe' and (owing to the backward state of agriculture and the impoverished state of the masses) capital cannot find a field for 'profitable' investment." (Lenin, "Imperialism", *Selected Works*, 1950, English edition, vol. 1, Pt. 2, p. 495.)

In its search for maximum profits, "surplus" capital hastens abroad. Capital is exported predominantly to backward countries, in which there is little capital, wages are low, raw material is cheap, and the price of land is comparatively small. In these countries monopoly capital is able to obtain and does actually obtain vast profits. The export of capital is closely connected with the growth in the export of commodities: the monopolies which export capital usually press their goods upon the debtor countries on conditions profitable to themselves. Foreign monopolies seize control of markets and sources of new material in debtor countries.

Capital is exported not only to backward countries but also to industrially developed ones. This happens during the period of especially rapid development of such countries, which creates a demand for an influx of capital from abroad (e.g., the U.S.A. before the first world war), or else when they are weakened as a result of war (Germany after the first world war, the Western European capitalist countries after the second world war).

Bourgeois economists and politicians depict the export of capital as "aid" and "a boon" allegedly conferred by the developed capitalist countries on backward peoples. In fact, the export of capital, while hastening the development of capitalist relations in backward countries, conduces at the same time to the all-round enslavement and plundering of these countries by alien monopolists. Export of capital provides one of the bases for the system of imperialist oppression, in which a few rich usurer-countries exploit the greater part of the world. As a result of the export of capital the world is divided into a handful of usurer-States and a gigantic majority of debtor-States.

The export of capital has important consequences for the capital-exporting countries. These countries on the one hand

multiply their wealth and strengthen their position on the world market. They receive from abroad a continual flow of surplus-value in the form of interest on loans or profits from overseas enterprises. On the other hand, stagnation in the industrial development of the capital-exporting countries themselves not infrequently sets in. One of the chief results of the export of capital is a growth of rivalry between the Powers, a struggle for the most profitable spheres of investment of capital.

Down to the first world war the principal countries exporting capital were Britain, France and Germany. Their capital investments abroad amounted to 175–200 milliard francs: Britain—75–100 milliard, France—60 milliard, Germany—44 milliard. Export of capital from the U.S.A. did not as yet play any great role, amounting to less than 10 milliard francs.

After the first world war very great changes took place in world export of capital. Germany lost her capital invested abroad. The foreign investments of Britain and France were substantially reduced and the export of capital from the U.S.A. increased markedly. In 1929 the U.S.A. almost drew equal to Britain in the size of its foreign investments.

After the second world war the export of capital from the U.S.A. grew still more. By the end of 1949 American capital investments abroad exceeded the total of overseas capital investments of all the rest of the capitalist States put together. The total amount of American capital invested abroad grew from 11·4 milliard dollars in 1939 to 39·5 milliard dollars at the end of 1953. The total amount of British capital investments abroad fell from 3·5 milliard pounds sterling in 1938 to 2 milliard in 1951.

Economic Division of the World between Alliances of Capitalists. International Monopolies

As the export of capital grows and as the foreign connections and "spheres of influence" of the biggest monopolies expand, conditions arise for the division of the world market among them. International monopolies are formed.

International monopolies are agreements concluded between the biggest monopolies of various countries on the division of markets, price policy, and the volume of production. The formation of international monopolies means the attainment of a new level of concentration of production and capital, incomparably higher than before. Many international monopolies are formed with the very active participation of capitalist States, and are among the most important methods of economic expansion.

Defenders of international monopolies try to present them as instruments of peace, alleging that international agreements between monopolists can settle by peaceful means the contradictions which arise between imperialist groups and countries. Such assertions have nothing in common with reality. In fact, the economic division of the world between international monopolies is carried out in accordance with the strength of the parties, while the strength of the various monopoly groups undergoes changes. Each of them wages an unceasing struggle to enlarge its share and expand its sphere of monopoly exploitation. Changes in the balance of forces inevitably bring in their train intensification of the struggle for re-division of markets, and sharpening of the contradictions between the different groups and the States supporting them. International agreements between monopolists are notorious for their instability, and bear within them the seeds of inevitable conflicts.

International monopolies began to arise in the 1860's–80's. Towards the end of last century their total number did not amount to more than forty. On the eve of the first world war there were reckoned to be about 100 international cartels and before the second world war their number had risen to more than 300.

Even before the first world war the petroleum market was in practice divided between the American Standard Oil trust, controlled by Rockefeller, and the Royal-Dutch-Shell concern, in which British capital wielded preponderant influence. The market for electrical equipment was shared between two monopoly firms: the German General Electric Company (A.E.G.) and the American General Electric Corporation, controlled by the Morgan group.

International monopoly agreements embraced even such fields as the production of armaments. The largest firms engaged in the manufacture of arms—Armstrong Vickers in Britain, Schneider-Creusot in France, Krupp in Germany, Bofors in Sweden—were linked together by a multitude of ties over a very long period.

International monopolies played a big part in preparing the second world war. The largest monopolies in the U.S.A., Britain and France, connected by cartel agreements with the German trusts, inspired and guided the policy of the ruling circles of these countries, a policy of encouraging and instigating Hitlerite aggression, which led to war.

After the second world war a series of international monopolies were formed to guarantee the economic and military interests of American imperialism. This is the function, for instance, of the so-called "European Coal and Steel Union", embracing Western Germany, France, Italy, Belgium, Holland and Luxemburg.

Completion of the Territorial Division of the World among the Great Powers and the Struggle to Re-divide it

Along with the economic division of the world between alliances of capitalists, and in connection with it, there takes place a territorial division of the world among the bourgeois States, a struggle for mastery over foreign lands, a struggle for colonies and semi-colonies.

Colonies is the name given to countries which have been deprived of State independence and have become possessions of imperialist metropolitan States.

Semi-colonies is the name given to economically underdeveloped countries which are objects of colonial exploitation on the part of imperialist powers and are economically and politically dependent on these States but retain formal independence. Besides colonies and semi-colonies there exist in the period of imperialism a great variety of types of *dependent* countries whose degree of dependence varies and is subject to all sorts of changes. "Typical of this epoch is not only the two main groups of countries: those owning colonies, and colonies, but also the diverse forms of dependent countries which, officially, are politically independent, but in fact are enmeshed in the net of financial and diplomatic dependence." (V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Selected Works*, 1950, vol. 1, Pt. 2, p. 521.)

Defenders of the bourgeoisie depict imperialist rule over the colonies as a "civilising mission", having the aim of leading backward peoples on to the path of progress and independent development. In reality imperialism dooms the colonial and dependent countries to economic backwardness, and hundreds of millions of the inhabitants of these countries are doomed to suffer unheard-of oppression and slavery, lack of rights and poverty, hunger and ignorance. The seizure of colonies by the imperialist Powers leads to unprecedented worsening of national oppression and racial discrimination. In Lenin's phrase, capitalism was transformed in its imperialist phase from the liberator of nations, which it had been in the period of struggle against feudalism, into a monstrous oppressor of nations.

As early as the middle of the eighteenth century Britain enslaved India, a country of most rich natural resources and with a population which in numbers many times exceeded that of the metropolis. In

the middle of the nineteenth century the U.S.A. seized extensive territories belonging to its neighbour Mexico, and in the following decades established its domination over a number of countries of Latin America.

In the 1860's–70's the colonial possessions of the European countries still occupied a comparatively small part of the overseas territories.

In the last quarter of the nineteenth century, in the period of transition to the monopoly stage of capitalism, the map of the world underwent radical changes. All the developed capitalist countries followed the oldest colonial power, Britain, on the road of territorial conquest. France became a great colonial power towards the end of the nineteenth century, with possessions amounting to 3·7 million square miles.

Germany seized a million square miles of territory with 14·7 million inhabitants, Belgium 900,000 square miles with 30 million inhabitants, the U.S.A. conquered the most important foothold in the Pacific Ocean—the Philippines—together with Cuba, Puerto Rico, Guam, Hawaii and Samoa, besides subjecting *de facto* a number of countries of South and Central America.

Between 1876 and 1914 the so-called "Great Powers" conquered about 10 million square miles of territory, which was one-and-a-half times the area of the metropolitan countries themselves. A number of countries were reduced to semi-colonial dependence on the imperialist States: China, with its population amounting to about a quarter of all mankind, and likewise Turkey and Persia (Iran). By the beginning of the first world war more than half of humanity was under the rule of the colonial Powers.

The imperialists establish and maintain their power over the colonies by methods of deceit and coercion, utilising the superiority of their military technique. The history of colonial policy is an unbroken chain of wars of conquest and punitive expeditions against the enslaved peoples, and also of bloody clashes between the countries possessing colonies. Lenin called the war of the United States against Spain in 1898 the first war of the imperialist type, marking the beginning of the epoch of imperialist wars. The revolt of the Filipino people against their conquerors was cruelly put down by the American forces.

Towards the beginning of the twentieth century the division of the world was complete. The colonial policy of the capitalist countries had led to the conquest of all the lands not hitherto occupied by the imperialists. No more "free" lands remained; a situation had been created in which every fresh conquest presupposed wresting territory from its owner. The completion of the division of the world placed on the order of the day the struggle to *re-divide* it. The struggle to re-divide the already

divided world is one of the fundamental distinguishing features of monopoly capitalism. This struggle eventually takes the form of a struggle for world domination, and inevitably leads to imperialist wars on a world scale.

Imperialist wars and arms races bring very heavy privations upon the peoples of all the capitalist countries and cost millions of human lives. At the same time wars and militarisation of the economy are profitable matters for the monopolies, bringing them particularly high profits.

The Basic Economic Law of Monopoly Capitalism

As already mentioned, the economic essence of imperialism consists of the replacement of free competition by the dominance of monopoly. The monopolies have as their aim in fixing monopoly prices, as Lenin put it, the obtaining of high monopoly profits, which considerably exceed the average profit. The obtaining of high monopoly profits by the monopolies results from the very nature of imperialism, and is guaranteed by the unprecedented intensification of the exploitation of the working class, by the plundering of the peasantry and other petty commodity producers, by the export of capital to backward countries and the sucking out of all the vital juices from these countries, by colonial conquests and imperialist wars, which are a goldmine for the monopolists. Lenin's works devoted to setting forth the economic and political essence of imperialism contain the initial propositions of the basic economic law of monopoly capitalism. On the basis of Lenin's initial propositions, Stalin formulated the basic economic law of modern capitalism.

The main features and requirements of the basic economic law of monopoly capitalism are the following:

> "The securing of the maximum capitalist profit through the exploitation, ruin and impoverishment of the majority of the population of the given country, through the enslavement and systematic robbery of the peoples of other countries, especially backward countries, and, lastly, through wars and militarisation of the national economy, which are utilised for the obtaining of very high profits." (Stalin, *Economic Problems of Socialism in the U.S.S.R.*, 1952, F.L.P.H. edition, pp. 43–4.)

Thus, the basic economic law of capitalism, the law of surplus-value, is further developed and made concrete in the period of imperialism. In pre-monopoly capitalism free competition led to a levelling of the rate of profit of the individual capitalists, and the law of the average rate of profit prevailed. In the conditions of imperialism the monopolies secure for themselves high, monopolistic, maximum profits. It is precisely maximum profit that furnishes the driving force of monopoly capitalism. Outflow of capital from one branch to others also occurs in the monopoly stage of capitalism and the tendency to equalisation of profits exists. This tendency clashes, however, with the operation of the basic economic law of monopoly capitalism, the law of maximum capitalist profit. In the epoch of imperialism commodities produced by monopolised branches of production are sold for the most part at monopoly prices, exceeding the price of production and ensuring high monopoly profits, but commodities produced by non-monopolised branches are often sold at prices below the price of production, so that the entrepreneurs concerned do not receive even the average profit.

The objective conditions for the obtaining of maximum profit are created by the establishment of the dominance of the monopolies in the various branches of production. The concentration and centralisation of capital attains their highest level in the phase of imperialism. Because of this, the expansion of production calls for vast investments of capital. On the other hand, in the period of monopoly capitalism a ferocious competitive struggle develops among these giant enterprises. It is the most powerful monopolies, which dispose of the largest capitals and receive the maximum profits, that are victorious in this struggle.

By drawing upon the maximum profits the monopolies are able to secure their supremacy in the capitalist world. The monopolies' pursuit of maximum profits leads to a sharpening of all the contradictions of capitalism.

The general basis of the maximum profit of the capitalist monopolies, as of all capitalist profits, is surplus-value, extracted from the workers through exploiting them in the process of production. The exploitation of the working class is raised by the monopolies to its utmost extent. By using all kinds of sweating systems of organisation and payment of labour an

exhausting intensification of labour is achieved, which signifies above all a tremendous growth in the rate and amount of surplus-value extracted from the workers. Further, the intensification of labour leads to many of the workers becoming redundant and falling into the ranks of the unemployed, without hope of returning to industry. Also thrown out of work are all those workers who find the unbearably excessive speeding-up of the production processes beyond their strength.

In the U.S.A. the rate of surplus-value in mining and manufacturing industry, calculated on the basis of official data, was in 1889 145 per cent, in 1919 165 per cent, in 1929 210 per cent, in 1939 220 per cent and in 1947 about 260 per cent. Thus, over a period of less than sixty years the rate of surplus-value grew by 80 per cent.

At the same time, real wages decline as a result of the rise in the cost of living and the growing burden of taxation. In the epoch of imperialism the gap between the worker's wages and the value of his labour-power grows ever wider. This signifies an intenser operation of the general law of capitalist accumulation, which causes the relative and absolute impoverishment of the proletariat. The growth in the exploitation of the working class in the process of production is supplemented by robbery of the working people as consumers; the workers have to overpay large sums to the monopolies, which fix high monopoly prices for the goods they produce and sell.

In the conditions of monopoly capitalism the goods produced by the monopolies are sold not at their prices of production but at substantially higher, monopoly prices.

A *monopoly price* is equivalent to the cost of production plus the maximum profit, which considerably exceeds the average profit; a monopoly price is higher than the price of production and, as a rule, exceeds the value of the goods. At the same time monopoly prices, as Marx already pointed out, cannot abolish the limits set by the value of commodities. The high level of monopoly prices does not alter the total sum of value and surplus-value produced in world capitalist economy. One of the sources of the maximum profit received by the monopolies is the redistribution of surplus-value, as a result of which the level of profits declines considerably in the non-monopolised enterprises. Maintaining prices at a high level which exceeds the value of the commodities, the monopolies appropriate the

results of the growth in the productivity of labour and the reduction in the costs of production. What the monopolies gain the workers, the petty producers and the inhabitants of the dependent countries lose.

The fiscal policy of the bourgeois States serves as an important instrument of monopoly inflation of prices. In the epoch of free competition it was predominantly the weaker countries, whose industries needed protection from foreign competition, that resorted to high customs duties. In the epoch of imperialism, on the contrary, high tariffs serve the monopolies as a means of attack, of struggle for fresh markets. High tariffs help to keep up monopoly prices within the country.

For the purpose of conquering new markets abroad the monopolies make extensive use of *dumping*—the sale of goods in foreign markets at knockout prices, considerably less than the prices charged in the home market and often even below the cost of production. Expansion of external outlets by means of dumping helps to keep prices high inside the country itself without reducing production, while the losses caused by dumping are covered by charging these enhanced prices on the home market. After the external market in question has been conquered and consolidated by the monopolies, they go over to selling their goods there at high monopoly prices.

Exploitation of the bulk of the peasantry by the monopolies is expressed above all in the fact that the domination of the monopolies gives rise to an increasing divergence between the level of prices of agricultural produce and that of industrial products (the so-called price-"scissors"): while selling their goods at inflated prices, the monopolies at the same time buy from the peasants the produce of their holdings at extremely reduced prices (monopoly low purchase prices). Monopoly prices, which serve as a means of pumping resources out of agriculture, hold back its development. One of the most powerful instruments for the ruining of the peasant holdings is the development of mortgage credit. The monopolies get the peasants entangled in loans and then acquire their land and chattels for themselves at very low prices. "Through mortgages, through the machinations of financial pirates, through high taxes and excise, through high rents and especially through competition on the part of the large capitalist landowners, the bourgeoisie is ruining the middle and small peasants," M. Thorez wrote in his work *The Communist Party's Policy in the Countryside.*

The purchase of the peasants' produce by the monopolies at extremely low prices does not mean at all that the urban consumer receives cheap foodstuffs. Between the peasant and the urban consumer stand the middlemen—merchants associated together in monopoly organisations which ruin the peasants and fleece the urban consumers.

Further, a source of maximum profits for the monopolies is the enslavement and plundering of economically backward and dependent countries by the bourgeoisie of the imperialist States. The systematic robbery of the colonies and other backward countries, and the transformation of a number of independent countries into dependent countries, constitute an integral feature of monopoly capitalism. Imperialism cannot live and develop without an uninterrupted flow of tribute from the foreign lands which it plunders.

The monopolies draw vast revenues above all from their *capital investments* in the colonial and dependent countries. These revenues are the fruit of the most ruthless and inhuman exploitation of the working masses of the colonial world. The monopolies gain through *non-equivalent exchange*, i.e., selling their commodities in colonial and dependent countries at prices considerably in excess of their value, and buying the commodities produced in these countries at extremely low prices which do not cover their value. In addition, the monopolies draw from the colonies high profits on the transport, insurance and banking operations which they carry out.

Finally, wars and militarisation of the economy are one of the ways whereby the monopolies secure maximum profits. Wars enrich the magnates of finance capital to an enormous extent, and in the intervals between wars the monopolies try to maintain the high level of their profits through an unrestrained arms drive. Wars and militarisation of the economy bring the monopolists fat war contracts, paid for by the treasury at inflated prices, and an abundant flow of loans and subsidies from the resources of the State Budget. In wartime all labour laws are suspended, the workers are proclaimed to be in a state of mobilisation and strikes are forbidden. All this enables the capitalists to raise the degree of exploitation through screwing up the intensity of labour. At the same time the standard of living of the working masses falls as a result of the growth of taxation and the rising cost of living.

Thus the militarisation of capitalist economy both in war conditions and in peacetime means a severe intensification of the exploitation of the working masses in the interests of the growth of maximum profits for the monopolies.

The basic economic law of modern capitalism, which determines the whole course of development of capitalism in its imperialist phase, enables us to understand and explain the inevitability of the growth and sharpening of the insoluble contradictions inherent in it.

BRIEF CONCLUSIONS

(1) Imperialism, or monopoly capitalism, is the highest and last stage of development of the capitalist mode of production. The transition from pre-monopoly capitalism to monopoly capitalism took place in the last third of the nineteenth century. Imperialism finally took shape at the beginning of the twentieth century.

(2) The basic economic features of imperialism are: (i) concentration of production and capital, attaining such a high level of development that it has created monopolies which play a decisive role in economic life; (ii) the merging of bank capital with industrial capital and formation on this basis of finance capital and a financial oligarchy; (iii) export of capital, as distinct from export of goods, assumes particularly great importance; (iv) international monopoly alliances are formed among the capitalists to divide the world among themselves; (v) the territorial division of the earth among the largest imperialist Powers is completed. The completion of the economic division of the world leads to a struggle to re-divide it, and this inevitably gives rise to imperialist wars on a world scale.

(3) The basic economic law of monopoly capitalism is the ensuring of the maximum capitalist profit through the exploitation, ruining and impoverishing of the majority of the inhabitants of the country concerned, through enslaving and systematically robbing the peoples of other countries, especially backward countries, and finally, through wars and militarisation of the national economy.

CHAPTER XIX

THE COLONIAL SYSTEM OF IMPERIALISM

Role of the Colonies in the Period of Imperialism

Colonial conquests, the effort to form large empires by subjugating weaker countries and peoples also existed before the epoch of imperialism, and even before the rise of capitalism. But, as Lenin showed, the role and significance of the colonies undergoes an essential change in the epoch of imperialism, not only as compared with pre-capitalist epochs, but also as compared with the period of pre-monopoly capitalism. To the "old" methods of colonial policy there is added the struggle of the monopolists for sources of raw material, for the export of capital, for spheres of influence and territories of economic and military-strategic importance.

As has been shown, the enslavement and systematic robbery by the imperialist States of the peoples of other countries, especially backward ones, the transformation of a succession of independent countries into dependent ones, constitutes one of the main features of the basic economic law of present-day capitalism. In the course of its extension throughout the world, capitalism gave rise to a tendency toward economic *rapprochement* between separate countries, to the abolition of national isolation and the gradual unification of vast territories into one connected whole. The method by which monopoly capitalism accomplishes the gradual economic unification of vast territories is the enslavement of colonies and dependent countries by imperialist Powers. This unification takes place through the formation of *colonial empires*, which are based on merciless oppression and exploitation of the colonies and dependent countries by the metropolitan countries.

The imperialist period sees completed the formation of the capitalist system of world economy, which is built up on relations of dependence, on relations of domination and subjection. The imperialist countries have subjected the peoples of the colonies and dependent countries to their rule by means

of intensified export of capital, extension of "spheres of influence" and colonial conquests.

> "Capitalism has grown into a world system of colonial oppression and of the financial strangulation of the overwhelming majority of the population of the world by a handful of 'advanced' countries." (Lenin, "Imperialism", *Selected Works*, 1950, English edition, vol. 1, Pt. 2, p. 437.)

Thus the separate national economies have been transformed into links of a single chain called world economy. At the same time, the world's population has been split into two camps—a small group of imperialist countries which exploit and oppress the colonial and dependent countries, and the vast majority of colonial and dependent countries, the peoples of which carry on a struggle to free themselves from the imperialist yoke.

It is in the monopoly stage of capitalism that the colonial system of imperialism has taken shape. *The colonial system of imperialism* means the entire aggregate of colonies and dependent countries oppressed and enslaved by the imperialist States.

Colonial pillage and conquest, imperialist lawlessness and violence, colonial slavery, national oppression and lack of human rights, and, finally, the struggle of the imperialist Powers among themselves for domination over the peoples of the colonial countries—such are the forms in which the process of creating the colonial system of imperialism has taken its course.

By conquest and plundering of colonies the imperialist States strive to overcome the mounting contradictions inside their own countries. The high profits extracted from the colonies enable the bourgeoisie to bribe certain sections of the skilled workers with whose aid the bourgeoisie tries to introduce disruption into the workers' movement. At the same time the exploitation of the colonies leads to the contradictions of the capitalist system as a whole becoming more acute.

Colonies as Agrarian and Raw-material Appendages of the Metropolitan Countries.

In the epoch of imperialism the colonies are above all the most reliable and profitable field for investment of capital. In

the colonies the finance oligarchy of the imperialist countries disposes of an undivided monopoly of capital investments and obtains especially high profits.

As it penetrates the backward countries, finance capital breaks up the pre-capitalist forms of economy—small-scale handicraft and semi-natural small-peasant economy—and stimulates the development of capitalist relations. For the purpose of exploiting the colonial and dependent countries the imperialists build railways on their territories and set up industrial enterprises for the production of raw material. But at the same time imperialist domination in the colonies retards the growth of the productive forces and deprives these countries of the conditions which they need in order to develop economically on independent lines. The imperialists have an interest in colonies remaining economically backward, since backwardness helps them to preserve their power over the dependent countries and to intensify the exploitation of these countries.

Even where industry is comparatively further developed than elsewhere—for example, in some of the Latin American countries—this means only the mining industry and a few branches of light industry—cotton, leather, foodstuffs. Heavy industry, which is the basis of a country's economic independence, is extremely weak; and engineering is hardly present at all. The ruling monopolies take special measures to hinder the creation of industry producing the instruments of production: they refuse credit for such purposes to the colonies and dependent countries and will not sell the necessary equipment and patents. The colonial dependence of backward countries stands in the way of their industrialisation.

In 1920 China's share of world coal output was 1·7 per cent, of iron output 0·8 per cent, of copper production 0·03 per cent. In India, the production of steel per head of the population on the eve of the second world war (1938) amounted to 2·7 kilogrammes a year as compared with 222 kilogrammes in Great Britain. The whole of Africa was in 1946 responsible for only 1·5 per cent of the fuel and electric power produced in the capitalist world. Even the textile industry is feebly developed and backward in colonial and dependent countries. In India in 1947 there were about 10 million spindles as compared with 34·5 million spindles in Britain, the population of which was only one-eighth that of India; in Latin America in 1945 there were 4·4 million spindles as compared with 23·1 million in the U.S.A.

Being deprived of the conditions needed for independent industrial development, the colonies and semi-colonies remain agrarian countries. The source of livelihood of the overwhelming bulk of the inhabitants of these countries is agriculture, which is bound hand and foot in feudal relationships. The stagnation and decline of agriculture hold back the growth of the internal market.

The monopolies which dominate the colonies permit only those branches of production to develop there which ensure the supply of raw materials and foodstuffs for the metropolis. This means the extraction of minerals and the cultivation of agricultural crops, with the initial stages of the working-up of these. As a result, the economy of the colonies and semi-colonies assumes an extremely one-sided character. Imperialism transforms the enslaved countries into *agrarian and raw-material appendages* of the metropolis.

The economy of many dependent countries is specialised in the production of one or two products, which go entirely for export. Thus in the period since the second world war petroleum has constituted 97 per cent of Venezuela's exports, tin ore 70 per cent of Bolivia's, coffee about 58 per cent of Brazil's, sugar over 80 per cent of Cuba's, rubber and tin over 70 per cent of Malaya's, cotton about 80 per cent of Egypt's, coffee and cotton 60 per cent of Kenya's and Uganda's, copper about 85 per cent of Northern Rhodesia's, cocoa about 50 per cent of the Gold Coast's. This one-sided development of agriculture (so-called *monoculture*) places whole countries completely at the mercy of the monopolist purchasers of raw material.

In connection with the transformation of the colonies into agrarian and raw-material appendages of the metropolitan countries, the role of the colonies as *sources of cheap raw material* for the imperialist States grows enormously. The further capitalism develops, the more acute becomes competition and hunting for sources of raw material throughout the world, and the more desperate the struggle to grab colonies. In the conditions of monopoly capitalism, when industry consumes huge masses of coal, oil, cotton, iron ore, non-ferrous metals, rubber, etc., no monopoly can count itself secure if it does not possess constant sources of raw material. The monopolies obtain from the colonies and dependent countries the enormous amounts of raw material which they need, at low prices. Monopoly possession of sources of raw material confers decisive

advantages in the competitive struggle. Seizure of the sources of cheap raw material enables the industrial monopolies to enforce monopoly prices on the world market, and to sell their products at inflated prices.

The imperialist Powers obtain a number of the most important kinds of raw material exclusively or largely from the colonies and semi-colonies. Thus, in the period since the second world war the colonial and dependent countries have supplied the greater part of the natural rubber consumed in the capitalist world, as also of the tin and the jute, about half the petroleum, and a number of important foodstuffs—cane-sugar, cocoa, coffee and tea.

The sources of various kinds of *strategic raw materials* necessary for war purposes—coal, oil, non-ferrous and rare metals, rubber, cotton, etc.—are the objects of ferocious conflict. Over a number of decades the imperialist Powers, and the U.S.A. and Britain first and foremost, have been fighting for monoply possession of rich sources of *oil*. The distribution of world oil resources affects not only the economic but also the political interests of the imperialist Powers.

In the imperialist epoch the importance of the colonies as *selling markets* for the metropolitan countries becomes greater. By means of an appropriate customs policy the imperialists fence round the colonial markets so as to exclude outside competition. In this way the monopolies are enabled to sell their products in the colonies at exorbitantly inflated prices—including inferior goods which they cannot sell elsewhere. The unequal terms of trade between the imperialist Powers and the dependent countries grow steadily worse. The monopolies which are engaged in trade with the colonies (buying-up of raw materials and sale of industrial commodities) obtain vast profits. They are the real rulers of entire countries, controlling the lives and fortunes of tens of millions of people.

The colonies serve as sources of extremely cheap labour-power. Monstrous exploitation of the working masses guarantees especially high returns on capital invested in colonies and dependent countries. In addition, the metropolitan countries import from these countries hundreds of thousands of workers who do particularly heavy work for extremely low wages. Thus, the U.S. monopolies, especially in the South, subject workers from Mexico and Puerto Rico to inhuman exploitation, the monopolies in France treat North African workers in the same way, and so on.

Some idea of the size of the tribute which is exacted by the monopolies from the colonies and semi-colonies is given by the following calculations, which have been made on the basis of official data. The annual tribute received by British imperialism from India on the eve of the second world war amounted to £150–£180 million, of which £40–£50 million was interest on British capital investments; British State expenditure charged to India's account was £25–£30 million: incomes and salaries of British officials and military officers in India accounted for another £25–£30 million; commission payments to British banks amounted to £15–£20 million; receipts from trade to £25–£30 million; receipts from shipping to £20–£25 million. The American monopolies in 1948 drew revenue from the dependent countries as follows: from capital investments 1·9 milliard dollars; from freight, insurance and other money-lending operations another 1·9 milliard dollars; from the sale of goods at inflated prices 2·5 milliard dollars; from the purchase of goods at low prices 1·2 milliard dollars—in all, monopoly tribute to the amount of 7·5 milliard dollars. Of this tribute not less than 2·5 milliard dollars was provided by the countries of Latin America.

In circumstances in which the world has already been divided up and preparation is going forward for an armed struggle to re-divide it, the imperialist Powers seize all territories which have or could have any value at all as military footholds or as naval or air bases.

The colonies supply cannon fodder to the metropolitan countries. In the first world war nearly one and a half million Negro soldiers from the African colonies fought on France's side. In wartime the metropolitan countries transfer a substantial part of their financial burdens on to the backs of the colonies. A considerable share of the war loans is realised in the colonies; Britain made extensive use of the currency resources of its colonies during both the first and second world wars.

The rapacious exploitation of the colonial and dependent countries by imperialism accentuates the irreconcilable contradiction between the vital needs of the economies of these countries and the selfish interests of the metropolitan countries.

Methods of Colonial Exploitation of the Working Masses

A characteristic feature of colonial methods of exploitation, which ensures high monopoly profits to the finance capital of the metropolitan countries, is the combination of imperialist

robbery with feudal and serf-owning forms of exploitation of the working people. The development of commodity production and extension of money relations, the expropriation of the bulk of the indigenous population from the land and the breaking up of petty handicraft production—all these processes take place alongside an artificial preservation of feudal survivals and the introduction of methods of forced labour. As capitalist relations develop, rent in kind gives place to money-rent and taxes in kind to taxes payable in money, which still further hastens the ruin of the peasant masses.

The ruling classes in the colonies and semi-colonies are the feudal landlords and the capitalists, both urban and rural (kulaks). The capitalist class is divided into the compradore bourgeoisie and the national bourgeoisie. The *compradores* are native middlemen between the foreign monopolies and the colonial markets, both for selling and for buying raw materials. The feudal landlords and the compradore bourgeoisie are vassals of foreign finance capital, direct mercenary agents of international imperialism, which holds the colonies and semi-colonies in thrall. As the colonies develop their own industries the national bourgeoisie grows in importance. It finds itself in a position facing two ways: on the one hand, oppression by foreign imperialism and feudal survivals bars its path to economic and political power, while on the other hand it shares, together with the foreign monopolies, in the exploitation of the working class and the peasantry. In the largest colonial and semi-colonial countries monopolistic associations of local bourgeois exist, which are dependent on the foreign monopolists. In so far as the national liberation struggle is directed towards the overthrow of imperialist rule, the winning of national independence for the country and the abolition of the feudal survivals which hinder the development of capitalism, the national bourgeoisie at a certain stage takes part in this struggle and plays a progressive role.

The working class grows in colonial and dependent countries as industry develops and capitalist relations spread. Its advanced section is the industrial proletariat. Part of the proletariat is also constituted by the agricultural workers, workers in capitalist manufacture and small enterprises and urban labourers engaged in all kinds of manual work.

The numerical bulk of the population of the colonies and

semi-colonies consists of peasants, and in the majority of these countries the overwhelming mass of country-dwellers is made up of peasants who either are landless or possess little land—poor peasants and middle peasants. The numerous urban petty bourgeoisie is composed of small traders and craftsmen.

In addition to the concentration of landed property in the hands of the landlords and usurers, extensive tracts of land are seized by the colonisers. In a number of colonies imperialism has established plantation economy. *Plantations* are large-scale agricultural enterprises for the production of particular kinds of vegetable raw materials (cotton, rubber, jute, coffee, etc.); they belong predominantly to the colonisers, and are based on a low level of technique and the semi-slave labour of a population without human rights. In the most densely populated of the colonial and dependent countries small-scale peasant production predominates, entangled with survivals of feudalism and relations of bond-slavery. In these countries the concentration of landed property in the hands of the landlords is combined with small-scale land-tenure.

The large landowners let out their land on lease, in small plots and on extortionate terms. Widespread is the parasitic system of many-tiered *sub-letting*, under which there insert themselves between the owner of the land and the peasant who actually tills it, a number of intermediaries who exact a considerable share of the crop from the cultivator. Share-farming predominates. Usually the peasant is completely in the power of a landlord to whom he stands in the relationship of one who owes an unpayable debt. In a number of countries direct forms of labour-rent and work-payment exist: landless peasants are obliged to work for the landlord several days a week for their lease or to repay a debt. Extreme want forces the peasants to run into debt, to fall into bondage and sometimes even into slavery to the money-lenders; cases occur when peasants are forced to sell members of their families into slavery.

Before the establishment of British rule in *India* the State took part of the peasants' produce in the form of taxation. After the conquest of India the British authorities transformed the collectors of State tribute into large landowners with estates hundreds of thousands of acres in extent. About three-quarters of the rural population of India was left without any land of its own. The peasant paid from half to two-thirds of his crop in rent, and out of what was left he

had to pay the money-lender interest in kind on the debts he had incurred. In Pakistan, according to figures for the post-war years, 70 per cent of the entire cultivated area belongs to 50,000 large landlords.

In the countries of the *Near East* at the present time 75–80 per cent of the inhabitants are engaged in agriculture. In Egypt 770 large landlords possess more land than the two million poor peasant families whose holdings make up 75 per cent of the total number of holdings; out of 14·5 million persons who live by agriculture, 12 million are small tenant farmers and labourers, and rent absorbs up to four-fifths of their crop. In Persia about two-thirds of the land belongs to the landlords and one-sixth to the State and the Moslem clergy; the tenant keeps only a fifth or two-fifths of his crop. In Turkey over two-thirds of the peasants are virtually without any land.

In the countries of *Latin America* the land is concentrated in the hands of large landowners and foreign monopolies. Thus, for example, in Brazil, according to data from the 1940 census, 51 per cent of the holdings accounted for only 3·8 per cent of the land-area. In the Latin-American countries the impoverished peasants are obliged to accept loans from the landlords which they have to pay back by way of work-payments; under this system (so-called "peonage"), debts are handed down from generation to generation and a peasant's entire family becomes in effect the property of the landlord. Marx called peonage a concealed form of slavery.

A large share of the meagre product of the exhausting labour of a peasant and his family is appropriated by various exploiters: landlords, money-lenders, merchants, rural bourgeoisie, foreign capital, etc. They take from the cultivator not only the product of his surplus labour but also a substantial part of his necessary labour. The income which is left to the peasant is in many instances insufficient even for an existence at starvation level. Many peasants' holdings go to rack and ruin and their former owners go to swell the ranks of the rural labourers. The agrarian surplus-population attains vast dimensions.

Crushed by their bondage to landlords and usurers, the peasants are not able to use on their holdings any but the most primitive technique, which has remained essentially unchanged for hundreds, and in some cases thousands, of years. A primitive technique of cultivating the land leads to extreme exhaustion of the soil. In consequence of all this, many colonies which have remained agrarian countries are not in a position to feed their inhabitants and are obliged to import foodstuffs. The agriculture of lands enslaved by imperialism is doomed to decline and degradation.

In these countries where agrarian surplus-population and land-hunger exist on a huge scale, only a part of all the land suitable for cultivation is actually worked. In the countries of the Near East the irrigation systems are neglected or in ruin. The yield from land which formerly was considered amongst the most fertile in the world is exceptionally low, and is continually falling. Partial failures of the harvest bring about the death from starvation of millions of people.

Colonial oppression means for the working class lack of all political rights and predatory exploitation. The cheapness of labour-power is responsible for the extremely low technical level of industrial enterprises and plantations. With a backward technique of production huge profits are secured by the monopolies through lengthening of the working days, intensification of labour and extremely low wages.

The working day in the colonies attains 14 to 16 hours or even more. As a rule no measures are taken to ensure safety at work in industrial enterprises or on the transport system. The very worn-out state of equipment and the unwillingness of employers to spend anything on repairs and on safety measures result in frequent accidents, which kill or cripple hundreds of thousands of people. The absence of any social legislation deprives the worker of any means of existence should he find himself unemployed, injured at work or the victim of an occupational disease.

The wages of colonial workers are inadequate to provide them with even the necessities of life. The workers have to pay out a certain proportion of their wretchedly low wages to all sorts of middlemen—contractors, foremen, overseers—who are responsible for hiring the labour force. The labour of women and of children from the age of six or seven is widely used, and is paid at even lower rates than that of the men workers. The majority of the workers are entangled in a network of debt slavery. In many instances the workers live in special barracks or camps, as prisoners, deprived of the right of free movement. Forced labour is openly used on a large scale, both in agriculture and in industry.

Extreme economic backwardness combined with a high level of exploitation dooms the colonial peoples to hunger and poverty. A vast share of the wealth created in the colonies is taken without compensation by the largest monopolies of the imperialist States. As a result of the exploitation of the colonies

and the retardation of the development of their productive forces, the national income calculated per head of the population is only one-tenth or one-fifteenth of what it is in the metropolitan countries. The standard of living of the overwhelming mass of the population is very low. The death-rate is extraordinarily high: hunger and epidemics lead to the extinction of the inhabitants of entire districts.

In the African colonies slavery is officially recognised. The authorities carry out round-ups of the Negroes; the police surround villages and despatch the people they capture to build roads or to work in the cotton and other plantations, etc. In colonial countries bond-slavery is a commonplace phenomenon; this existed also in pre-revolutionary China. The selling of children into slavery is also widespread.

Racial discrimination in regard to wages prevails in the colonies. In French West Africa a worker belonging to the indigenous population, though skilled, receives only a quarter or a sixth of the wages paid to a European worker with the same qualifications. In the Belgian Congo African mineworkers are paid a fifth or a tenth of the wages received by European workers. In the Union of South Africa 65 per cent of the children of the native population die before reaching their second year.

The National Liberation Struggle of the Colonial Peoples

Before the epoch of imperialism the national question affected only a few, mainly European, nations (the Irish, Hungarians, Poles, Finns, Serbs, and others) and was confined to the territories of a few multi-national States. In the epoch of imperialism, when the finance capital of the metropolitan countries has enslaved the peoples of the colonial and dependent countries, the scope of the national question has been extended, and in the very course of events it becomes merged with the general question of colonies.

> "The national question was thereby transformed from a particular and internal State problem into a general and international problem, into a world problem of emancipating the oppressed people of the dependent countries and colonies from the yoke of imperialism." (Stalin, "Foundations of Leninism", *Works*, English edition, vol. VI, p. 144.)

The only way by which these peoples can free themselves from the burden of exploitation is their revolutionary struggle

against imperialism. Throughout the entire epoch of capitalism the peoples of the colonial countries have fought against foreign enslavement, frequently breaking out in revolts which were cruelly put down by the colonisers. In the period of imperialism the struggle of the peoples of the colonial and dependent countries for liberation assumes unprecedented dimensions.

Already at the beginning of the twentieth century, especially after the first Russian Revolution of 1905, the working masses of the colonial and dependent countries were awakened to political life. Revolutionary movements arose in China, Korea, Persia and Turkey.

The countries of the colonial world differ among themselves in their level of economic development and in the degree to which a proletariat has been formed within them. Three categories, at least, of colonial and dependent countries must be distinguished: (1) countries which are completely undeveloped from the industrial standpoint, and possess no proletariat or hardly any; (2) countries which are not much developed industrially and have a comparatively small proletariat; (3) countries which are more or less developed on capitalist lines and which have a more or less numerous proletariat. This distinction determines the special features assumed by the national liberation movement in the various colonial and dependent countries.

In so far as the population in the colonial and dependent countries is composed preponderantly of peasants, the national and colonial question is in essence a peasant question. The common aim of the national liberation movement in the colonies and dependent countries is liberation from the rule of imperialism and abolition of all feudal survivals. For this reason every national liberation movement in the colonies and dependent countries which is directed against imperialism and feudal oppression is progressive in character, even if in the countries concerned the proletariat is only slightly developed.

The national liberation movement in the colonies and dependent countries, in which the proletariat is playing an ever-greater role as acknowledged leader of the broad masses of the peasantry and all the working people, draws into struggle against imperialism the gigantic majority of the world's population which is oppressed by the finance oligarchies of a few of the biggest capitalist Powers. The interest of the proletarian

movement in the developed capitalist countries and those of the national liberation movement in the colonies demand that these two forms of the revolutionary movement be united in a common fighting front against their common enemy, imperialism. Proletarian internationalism proceeds from the fact that no people which oppresses other peoples can itself be free. And, as Leninism teaches, real support by the proletariat of the ruling nations to the liberation movement of the oppressed peoples means support, defence and implementation of the slogan of the right of nations to separation and to independent State existence.

The growth of the national liberation struggle of the oppressed peoples of the colonies and dependent countries saps the foundations of imperialism and prepares its downfall.

BRIEF CONCLUSIONS

(1) Unrestrained exploitation of colonies and semi-colonies is one of the characteristic features of monopoly capitalism. The maximum profits of the monopolies are inseparably connected with the exploitation of colonies and semi-colonies as markets, as sources of raw material, spheres of investment of capital and reservoirs of cheap labour-power. Demolishing pre-capitalist forms of production and evoking the accelerated growth of capitalist relations, imperialism permits, however, only such a development of the economy of the colonies and dependent countries as will deprive them of economic and political independence. The colonies serve as agrarian raw-material appendages to the metropolitan countries.

(2) Characteristic of the colonial system of imperialism is the interweaving of capitalist exploitation and robbery with sundry survivals of feudal and even of slave-owning oppression. Finance-capital artificially maintains survivals of feudalism in the colonies and dependent countries, and introduces forced labour and slavery there. Penal conditions of labour, with an extremely low standard of technique, complete lack of rights, ruin and impoverishment, hunger and mass extinction are the lot of the working class and the peasantry in the colonial and semi-colonial countries.

(3) The intensifying of colonial exploitation and oppression inevitably calls forth resistance by the broadest masses of the

population in the colonial and dependent countries. The national liberation movement of the enslaved peoples draws into struggle against imperialism the gigantic majority of the world's population, undermines the foundations of imperialism and prepares its downfall.

CHAPTER XX

THE PLACE OF IMPERIALISM IN HISTORY

Imperialism—the Last Stage of Capitalism

Defining the place of imperialism in relation to capitalism in general, Lenin wrote:

> "Imperialism is a specific historical stage of capitalism. Its specific character is three-fold: imperialism is (1) monopoly capitalism; (2) parasitic or decaying capitalism; (3) moribund capitalism." (Lenin, "Imperialism and the Split in Socialism", *Selected Works*, 12-vol. edition, vol. XI, p. 748.)

Monopoly capitalism does not and cannot eliminate the foundations of the old capitalism. In a certain sense it is a *superstructure* upon the old, pre-monopoly capitalism. Just as there is not and cannot be any "pure capitalism", so the existence of "pure imperialism" is unthinkable. Even in the most highly developed countries a host of small and medium enterprises exist alongside the monopolies, especially in light industry, agriculture, trade and other branches of the economy. In nearly all capitalist countries a considerable part of the population is composed of peasants, the bulk of whom carry on simple commodity production. In the colonial and semi-colonial countries imperialist oppression is interwoven with pre-capitalist and especially feudal forms of exploitation.

The essential peculiarity of imperialism is that monopolies exist alongside of the market, competition and crises. Inasmuch as imperialism is the continuation and development of the basic features of capitalism, to that extent the economic laws of capitalism generally are retained in the monopoly phase of capitalism. But in connection with the change in the economic conditions and the extreme sharpening of all the contradictions of capitalism, these laws undergo further development, and they operate with increasing destructive force. This applies to the laws of value and surplus-value; to the law of competition and anarchy of production; to the general law of capitalist

accumulation, which causes the relative and absolute impoverishment of the working class and dooms the bulk of the working peasantry to impoverishment and ruin; to the contradictions of capitalist reproduction and to economic crises.

Monopolies bring the socialisation of production to the highest level possible under capitalism. Large and very large enterprises, in each of which thousands of people are employed, produce a substantial share of the total production in the most important branches of industry. The monopolies link together huge enterprises, allot markets and sources of raw material, assemble under their command bodies of scientific workers, control inventions and technical improvements. The big banks have nearly all the money resources of the country under their control. The links between the various branches of the economy, and their interdependence, increase tremendously. Industry, with gigantic productive capacities at its disposal, is able rapidly to increase the quantity of goods produced.

Meanwhile, the means of production remain the private property of the capitalists and a decisive share of the means of production belongs to a small handful of monopolists. In their drive for maximum profit the monopolies raise by all means in their power the level of exploitation of the working class, which leads to an intensified impoverishment of the working masses and a reduction in their purchasing power.

Thus, the domination of monopoly sharpens to the uttermost the basic contradiction of capitalism—the contradiction between the social character of production and the private capitalist form in which the results of production are appropriated. It becomes ever more obvious that the social character of the process of production demands social ownership of the means of production.

In the imperialist epoch society's productive forces have attained such a level of development that they are constricted by the narrow framework of capitalist production-relations. Capitalism, which replaced feudalism as a more progressive mode of production, has been transformed in its imperialist phase into a reactionary force which holds back the development of human society. The economic law of the obligatory correspondence of the relations of production to the character of the productive forces demands the replacement of capitalist relations of production by new, socialist relations. This law

encounters the most violent resistance on the part of the ruling classes, and above all of the monopolist bourgeoisie and the large landowners, who strive to prevent the working class from forming an alliance with the peasantry and overthrowing the bourgeois system.

The high level of development of the productive forces and the socialisation of production, the deepening and sharpening of all the contradictions of bourgeois society, testify to the fact that capitalism, having arrived at the last phase of its development, is fully ripe for replacement by a higher social order —socialism.

Imperialism as Parasitic or Decaying Capitalism

Imperialism is *parasitic* or *decaying* capitalism. The domination of monopolies which strive to obtain maximum profits inevitably engenders a tendency to stagnation and decay. Monopolies, being in a position to dictate what prices shall prevail on the market and to maintain them artificially at a high level, are by no means always interested in introducing technical innovations. Quite often, monopolies hinder technical progress; they keep back for years on end very great scientific discoveries and technical inventions.

Thus, monopolies have an inherent tendency toward stagnation and decay, and in certain conditions this tendency comes to the top. This circumstance does not in any way rule out, however, a comparatively rapid growth of production and development of technique in certain branches of bourgeois economy in particular capitalist countries. But this growth takes place extremely unevenly, and lags further and further behind the tremendous possibilities opened up by modern science and technique.

The highly developed technique of the present day is bringing forward immense tasks, fulfilment of which encounters obstacles arising from capitalist production relations. Capitalist countries are unable, for example, to make full use of their hydro-electric resources owing to the obstacles put in the way by private ownership of land and the domination of the monopolies. The monopoly of private property in land, agrarian surplus-population in the countryside and the predominance of small peasant holdings hinder the introduction of the achievements of modern science and technique into agriculture, though this does not rule out technical progress in a number of

large capitalist agricultural enterprises. The interests of the capitalist monopolies are obstacles to the utilisation of atomic energy for peaceful purposes.

> "Wherever you look", wrote V. I. Lenin as long ago as 1913, "you encounter at every step tasks which mankind is fully competent to carry out *immediately*. Capitalism stands in the way. It has accumulated hoards of riches—and made men the *slaves* of these riches. It has solved the most complex of technical problems—and blocked the practical applications of technical improvements owing to the poverty and ignorance in which millions of people live and the stupid niggardliness of the handful of millionaires." (Lenin, "Civilised Barbarism", *Works*, Russian edition, vol. XIX, p. 349.)

The decay of capitalism is expressed in the growth of parasitism. The capitalist class loses all connections with the process of production. The management of enterprises is concentrated in the hands of hired technical staff. The overwhelming majority of the bourgeois and landlords are transformed into *rentiers*—persons who own securities and live on income from these securities (coupon-clipping). The parasitic consumption of the exploiting classes grows.

The absolutely complete divorcement of the *rentier* strata from production is still further enhanced by the *export of capital*, by income from overseas investments. The export of capital sets a mark of parasitism on an entire country which lives by exploiting the peoples of other countries and colonies. The capital invested abroad forms a continually increasing proportion of the national wealth of the imperialist countries, and incomes from this capital an ever increasing element in the income of the capitalist class. Lenin called the export of capital "parasitism squared".

Capital invested abroad amounted in 1929 to the following proportions of the national wealth of various countries: Britain—18 per cent, France—15 per cent, Holland—about 20 per cent, Belgium and Switzerland—nearly 12 per cent each.

In the U.S.A. the income derived by rentiers from their securities amounted in 1913 to 1·8 milliard dollars and in 1931 to 8·1 milliard, which was 1·4 times the amount of the total gross money income of the 30-million strong farming population in the same year. The U.S.A. is a country where the parasitic features of modern capitalism, no less than the predatory nature of imperialism, are especially vividly evident.

The parasitic character of imperialism is plainly visible in the fact that a number of bourgeois countries have become transformed into *rentier-States*. By means of enslaving loans the biggest imperialist countries draw enormous revenues from the debtor countries and subject them both economically and politically. The rentier-State is the State of parasitic, decaying capitalism. Exploitation of the colonies and dependent countries, which is one of the main sources of the maximum profits of the monopolies, turns a handful of the richest capitalist countries into parasites on the body of the oppressed peoples.

The parasitic character of imperialism is expressed in the growth of *militarism*. A continually increasing share of the national income, and principally of the incomes of the working people, is drawn into the State Budget and spent on the upkeep of huge armies, on the preparation and conduct of imperialist wars. Militarisation of the economy and imperialist wars, which are among the principal methods whereby the monopolies secure maximum profits, are at the same time responsible for the destruction of great numbers of human lives and vast quantities of material wealth.

Inseparably connected with increased parasitism is the fact that huge masses of people are divorced from socially-useful work. The army of unemployed grows and the number of persons engaged in services to the exploiting classes increases, as also of those in the machinery of State and in the incredibly inflated sphere of circulation.

The decay of capitalism is further shown in the bribing by the imperialist bourgeoisie, out of its profits from the exploitation of the colonies and dependent countries, of a small upper stratum of skilled workers—the so-called labour aristocracy—by means of higher wages and other sops. With the bourgeoisie's backing, the labour aristocracy seizes the leading positions in a number of trade unions; it forms, along with petty-bourgeois elements, the active core of the right-wing Socialist parties and constitutes a serious danger to the working-class movement. This stratum of workers who have become bourgeois is the social basis of opportunism.

Opportunism in the labour movement means the adaptation of the labour movement to the interests of the bourgeoisie, through undermining the proletariat's revolutionary struggle to free itself from capitalist slavery. The opportunists poison

the workers' minds with their preaching of the reformist road of "improving" capitalism, and they call on the workers to support the bourgeois governments in their imperialist policies, at home and abroad.

The opportunists essentially play the part of agents of the bourgeoisie in the labour movement. By splitting the ranks of the working class the opportunists prevent the workers from uniting their forces to overthrow capitalism. This is one of the reasons why the bourgeoisie still continues to hold power in many countries.

To pre-monopoly capitalism with its free competition, there corresponded as political superstructure a limited bourgeois democracy. Imperialism, with its monopoly domination, is marked by a turn from democracy to political *reaction* in both the home and external policies of bourgeois States. Political reaction *all* along the line is inherent in imperialism. The heads of the monopolies or their henchmen occupy the principal posts in the governments and in the whole of the State service. Under imperialist conditions governments are put in office not by the people but by the magnates of finance capital. The reactionary monopolist groups, to consolidate their power, try to reduce to naught the democratic rights of the working people which have been won through stubborn struggle by many generations. This makes necessary a stiffening to the utmost of the struggle of the masses for democracy against imperialism and reaction.

> "Capitalism in general and imperialism in particular make democracy an illusion—and at the same time capitalism arouses democratic strivings among the masses, creates democratic institutions, renders acute the antagonism between imperialism, which rejects democracy, and the masses who are striving for democracy." (Lenin, *Works*, Russian edition, vol. XXIII, p. 13.)

In the epoch of imperialism the struggle waged by the broadest masses of the people, led by the working class, against the reaction engendered by the monopolies is of very great historical importance. Upon the activity, organisation and resoluteness of the masses of the people depends the frustration of the anti-human plans of the aggressive forces of imperialism, which are continually preparing new hardships and war-disasters for the peoples.

Imperialism as the Eve of the Socialist Revolution

Imperialism is *moribund capitalism*. It sharpens all the contradictions of capitalism, bringing them to the last borderline, the extreme limits, beyond which revolution begins. The most important of these contradictions are the three following.

First, the *contradiction between labour and capital*. The dominance of monopoly and the finance oligarchy in the capitalist countries leads to increasing the degree of exploitation of the working people. The worsening of the material position and the increased political oppression of the working class make it more discontented and bring about a sharpening of the class struggle between proletariat and bourgeoisie. In these conditions, the former methods of economic and political struggle of the working class are found to be completely inadequate. Imperialism brings the working class in real earnest to the socialist revolution.

Secondly, the *contradiction between the imperialist* Powers. In the struggle for maximum profits the monopolies of the different countries come into collision with one another, each of the groups of capitalists endeavouring to secure preponderance for itself through seizure of markets, sources of raw material and spheres of investment of capital. The bitter struggle for spheres of influence which the imperialist countries carry on among themselves inevitably leads to imperialist wars, which weaken the position of imperialism, intensifying the discontent of the masses and urging them along the road of revolutionary struggle against the capitalist system.

Thirdly, the *contradiction between the oppressed peoples of the colonies and dependent countries and the imperialist Powers which exploit them*. As a result of the intensifying of imperialist oppression and also of the development of capitalism in the colonies and semi-colonies the national liberation movement against imperialism grows. The colonies and dependent countries are transformed from reserves of imperialism into reserves of the proletarian revolution.

These principal contradictions are characteristic of imperialism as moribund capitalism. This does not mean that capitalism can die by itself, through "automatic collapse", without resolute struggle by the masses of the people, headed by the working class, to abolish bourgeois rule. It only means

that imperialism is the stage of capitalism's development at which proletarian revolution has become really inevitable, and favourable conditions have matured for a direct onslaught on the citadel of capitalism. For this reason Lenin called imperialism the eve of the socialist revolution.

State-monopoly Capitalism

In the epoch of imperialism the bourgeois State, which is a dictatorship of the finance oligarchy, conducts all its activities in the interests of the ruling monopolies.

As the contradictions of imperialism become more acute, the ruling monopolies increase their direct control of the State machine. Ever more frequently one finds the biggest magnates of capital appearing in the role of heads of the State machine. A process of transforming monopoly capitalism into State-monopoly capitalism takes place. The first world war already accelerated and intensified this process to an extraordinary degree.

State-monopoly capitalism means the *subjection* of the State machine to the capitalist monopolies and their using it to interfere in the country's economy (especially in connection with militarisation of the economy), in order to secure maximum profits for themselves and consolidate the all-powerful position of finance capital. As part of this process, various enterprises, branches of the economy and economic functions are transferred to the bourgeois State (supply of labour-power, securing of raw materials which are in short supply, rationing of products, construction of arms factories, financing the militarisation of the economy, etc.), while the predominance in the country of private ownership of the means of production is preserved.

State ownership in imperialist countries arises either as a result of the building of factories, railways, arsenals, etc., at State expense or as a result of bourgeois nationalisation, i.e., the transfer of certain private enterprises to the State, against lavish compensation. Contrary to the assertions of bourgeois economists, who depict the State ownership of enterprises under the political rule of the bourgeoisie as "a step towards socialism", this has nothing in common with socialism. State ownership in bourgeois countries is a variant of capitalist

ownership, with the owner in this case not any individual capitalist but the bourgeois State, which is subject to a handful of big monopolists. The State ownership of enterprises is used by the monopolists to intensify the exploitation of the working class and all the working people, to increase their profits.

The monopolies make use of the State power to promote actively the concentration and centralisation of capital and to strengthen the might and the influence of the biggest monopolies. The State takes special measures to compel independent enterprises to subordinate themselves to the monopoly groupings, and in wartime carries out compulsory concentration of production, closing down a large number of small and medium enterprises. In the interests of the monopolies the State, on the one hand, imposes high customs duties on imported goods and on the other encourages the export trade, paying export subsidies to the monopolies and helping them to conquer fresh markets by means of dumping.

The monopolies use the State Budget to plunder the inhabitants of their own countries through taxation, and also to receive contracts from the State which bring them huge profits. On the pretext of "encouraging business initiative" the bourgeois State pays out enormous sums to the biggest employers in the form of subsidies. Should the monopolies be in danger of bankruptcy they receive from the State the means to cover their losses, and their tax indebtedness to the State is written off.

The development of State-monopoly capitalism becomes especially intense in periods of preparation for imperialist wars and during such wars. Lenin called wartime State-monopoly capitalism military penal servitude for the workers and paradise for the capitalists. The governments of the imperialist countries give the monopolies enormous contracts for the supply of arms, equipment and provisions, build arms factories at public expense and then hand them over to the monopolies, and float war loans. At the same time, the bourgeois States transfer all the burdens of war on to the working people. All this secures colossal profits to the monopolies.

The development of State-monopoly capitalism leads, first, to a very marked speeding-up of capitalist socialisation of production, creating the material premises for the replacement of capitalism by socialism. Lenin pointed out that State-monopoly

capitalism is the most complete material preparation for socialism.

The development of State-monopoly capitalism leads, secondly, to enhanced relative and absolute impoverishment of the proletariat. With the aid of the State power, the monopolies screw up by all possible means the degree of exploitation of the working class, the peasantry and broad strata of the intelligentsia, and this leads inevitably to extreme sharpening of the contradiction between exploiters and exploited.

Defenders of capitalism, concealing the subordination of the bourgeois State to the capitalist monopolies, allege that the State has become the decisive force in the economy of the capitalist countries and is able to secure planned management of the national economy. But in fact the bourgeois State cannot manage the economy on planned lines, for the economy is not under its control but in the grip of the monopolies. State "regulation" of the economy, carried out in the interests of monopoly capital, cannot eliminate the anarchy of capitalist economy and economic crises and leads in practice to a further sharpening of the contradictions of the bourgeois system.

The Law of Uneven Economic and Political Development of the Capitalist Countries in the Period of Imperialism and the Possibility of the Victory of Socialism in a Single Country

Under capitalism it is impossible for the separate enterprises and branches of a country's economy to develop in even fashion. Under conditions of competition and anarchy of production uneven development of capitalist economy is inevitable. But in the pre-monopoly epoch, production was split up among a large number of enterprises, there was free competition, and monopolies did not exist. Capitalism could still develop comparatively smoothly. Certain countries went ahead of others over a prolonged period. There existed in the world in those days extensive territories which belonged to no one. Things proceeded without armed clashes on a world scale.

This situation underwent radical change with the transition to monopoly capitalism, when the division of the world among the imperialist powers had been completed and they were carrying on a sharp struggle for redivision of the world. At the same time an unprecedented development of technique opened

for certain imperialist countries the possibility of overtaking rapidly, by leaps and bounds, the other imperialist countries. Countries which had taken the path of capitalist development later than others utilised the ready-made results of technical progress—machinery, production methods, etc. Hence a more rapid development, *by leaps and bounds*, of some countries alongside a slowing-down in the growth of others. This development in the form of leaps and bounds is also enhanced to a tremendous extent by the export of capital. It becomes possible for some countries to overtake and surpass others, crowd them out of the markets, and carry out by armed force a re-division of the already divided world. In the period of imperialism the unevenness of development of the capitalist countries has been transformed into a decisive factor of imperialist development.

The relation of economic forces among the imperialist Powers changes with unprecedented rapidity. In consequence, the balance of military power among the imperialist States changes in a very uneven manner. The changing relation of economic and armed forces comes into conflict with the old distribution of colonies and spheres of influence. This inevitably gives rise to a struggle to re-divide the already divided world. The actual strength of the various imperialist groups is tested by way of bloody and devastating wars.

In 1860 first place in the world's industrial production was occupied by Britain, with France as runner-up. Germany and the U.S.A. were then only just entering the world arena. A decade passed, and a rapidly growing country of young capitalism, the U.S.A., had outstripped France and changed places with her. In another decade the U.S.A. had outstripped Britain and established itself in the leading position in world industrial production, while Germany had overtaken France and taken third place after the U.S.A. and Britain. Towards the beginning of the twentieth century Germany ousted Britain and took second place after the U.S.A. As a result of the change in the relation of forces between the capitalist countries the capitalist world was split into two hostile camps and world wars began.

The unevenness of the development of the capitalist countries causes a sharpening of the contradictions in the imperialist camp and makes armed clashes inevitable, which results in the imperialists weakening one another. The world front of imperialism

becomes easily vulnerable to the proletarian revolution. This provides the basis for a breach to be made in the front at that link where the chain of the imperialist front is weakest, at that point where the most favourable conditions for the victory of the proletariat are found together.

The unevenness of economic development in the epoch of imperialism gives rise to unevenness of political development as well, which means that the political premises for the proletarian revolution come to ripeness at different times in different countries. Foremost among these premises are the acuteness of class contradictions and the level of development of the class struggle, the degree of class consciousness, the extent to which the proletariat is organised politically and filled with revolutionary resolution, and the ability of the proletariat to draw the bulk of the peasantry after it.

The law of the uneven economic and political development of the capitalist countries in the period of imperialism constitutes the starting-point of Lenin's teaching on the possibility of the victory of socialism first of all in a few countries, or even in a single country.

Marx and Engels, studying pre-monopoly capitalism in the middle of the nineteenth century, came to the conclusion that socialist revolution could triumph only simultaneously in all civilised countries or at least in the majority of them. At the beginning of the twentieth century, however, particularly in the period of the first world war, the situation changed radically. Pre-monopoly capitalism had grown into monopoly capitalism. Ascending capitalism had been transformed into descending, dying capitalism. The war had revealed the incurable weaknesses of the world imperialist front. At the same time the law of uneven development had predetermined that proletarian revolution in the different countries would mature at different times. Proceeding from the law of uneven development of capitalism in the imperialist epoch, Lenin came to the conclusion that the old formula of Marx and Engels no longer corresponded to the new historical conditions, that in the new conditions socialist revolution could quite well triumph in a single country, that a simultaneous victory of socialist revolution in all countries or in the majority of civilised countries was impossible owing to the uneven maturing of the revolution in these countries.

"Uneven economic and political development," wrote Lenin, "is an absolute law of capitalism. Hence, the victory of socialism is possible first in several or even in one capitalist country, taken singly." (Lenin, "On the United States of Europe Slogan", *Selected Works*, 1950, English edition, vol. 1, Pt. 2, pp. 416–17.)

This was the new, conclusive theory of socialist revolution created by Lenin. It enriched Marxism and advanced it, opened a revolutionary prospect before the proletarians of the separate countries, released their initiative in the attack upon their own bourgeoisie, and strengthened their confidence in the victory of the proletarian revolution.

The imperialist period sees the completed formation of the capitalist system of world economy, in which the separate countries become so many links in a single chain. Leninism teaches that in the conditions of imperialism socialist revolution is victorious first, not necessarily in those countries where capitalism is furthest developed and the proletariat constitutes the majority of the population, but in those countries which are weak links in the chain of world imperialism. The objective conditions for socialist revolution have matured in the system of world capitalist economy as a whole. This being so, the existence within this system of countries which are insufficiently developed from the industrial standpoint cannot represent an obstacle to revolution. For socialist revolution to be victorious it is necessary that there should be present a revolutionary proletariat and a proletarian vanguard united in a political party, that there should be in the given country a solid ally of the proletariat, in the shape of the peasantry, capable of following the proletariat in resolute struggle against imperialism.

In the epoch of imperialism, when the revolutionary movement is growing throughout the world, the imperialist bourgeoisie takes its stand in alliance with all reactionary forces without exception and uses survivals of serfdom in every possible way to strengthen its rule and enlarge its profits. For this reason, abolition of the feudal serf-owning order is impossible without a resolute struggle against imperialism. In these conditions the hegemony of the proletariat in the bourgeois-democratic revolution, welding the mass of the peasantry

around itself for struggle against feudal survivals and imperialist colonial oppression, becomes possible. As its anti-feudal and national-liberation tasks are accomplished, bourgeois-democratic revolution grows into socialist revolution.

In the imperialist period the discontent of the proletariat grows in the capitalist countries, the elements of a revolutionary explosion accumulate, and in the colonial and dependent countries a war of liberation against imperialism develops. Imperialist wars for the re-division of the world weaken the system of imperialism and strengthen the tendency for proletarian revolutions in the capitalist countries to unite with the national liberation movement in the colonies.

Proletarian revolution which has triumphed in a single country is at the same time the beginning of the world socialist revolution. Lenin scientifically foresaw that world revolution would develop through the revolutionary falling away of a series of further countries from the system of imperialism, with support rendered to the proletariat of these countries by the proletariat of the imperialist States. The process of the falling away from imperialism of a series of further countries will itself take place the faster and more thoroughly, the more thoroughly socialism is consolidated in the countries of the victorious proletarian revolution.

> "In the last analysis, the outcome of the struggle", wrote Lenin in 1923, "will be determined by the fact that Russia, India, China, etc., account for the overwhelming majority of the population of the globe. And it is precisely this majority that during the past few years has been drawn into the struggle for emancipation with extraordinary rapidity so that in this respect there cannot be the slightest shadow of doubt what the final outcome of the world struggle will be. In this sense the complete victory of Socialism is fully and absolutely guaranteed." (Lenin, "Better less but better", *Selected Works*, 1950, edition, vol. II, Pt. 2, p. 750.)

BRIEF CONCLUSIONS

(1) Imperialism is: (1) monopoly capitalism, (2) decaying or parasitic capitalism, (3) moribund capitalism, the eve of the Socialist revolution.

(2) The decay and parasitism of capitalism are expressed in

the retardation by the monopolies of technical progress and the growth of the productive forces, in the transformation of a number of bourgeois countries into rentier-States which live by exploiting the peoples of the colonies and dependent countries, in an orgy of militarism, in an increase in the parasitic consumption of the bourgeoisie, in reactionary internal and external policies of the imperialist States, and in the bribing by the bourgeoisie of the imperialist countries of a small upper stratum of the working class. The decay of capitalism leads to intensified impoverishment of the working class and of the working masses of the peasantry.

(3) Imperialism renders three major contradictions of capitalism extremely acute: (1) the contradiction between labour and capital, (2) the contradiction between the imperialist Powers struggling for preponderance and, in the last analysis, for world power, and (3) the contradiction between the metropolitan countries and the colonies. Imperialism finally brings the proletariat to the threshold of socialist revolution.

(4) State-monopoly capitalism means the subordination of the State machine to the capitalist monopolies and the use of it for interference in the economic life of the country (especially in connection with its militarisation), with the aim of securing maximum profits and consolidating the rule of the finance oligarchy. While signifying the highest stage of capitalist socialisation of production, State-monopoly capitalism brings with it further intensification of the exploitation of the working class, impoverishment and ruin of the broad working masses.

(5) The law of uneven economic and political development of the capitalist countries in the period of imperialism weakens the front of world imperialism. The unevenness with which revolution matures rules out the possibility of a simultaneous victory of socialism in all countries or in the majority of countries. It is made possible for the imperialist chain to be broken at its weakest link, possible for socialist revolution to triumph first of all in a few countries, or even in a single country.

CHAPTER XXI

THE GENERAL CRISIS OF CAPITALISM

Nature of the General Crisis of Capitalism

As the contradictions of imperialism grew, so the preconditions for the general crisis of capitalism accumulated. The foundations of the theory of the general crisis of capitalism were worked out by V. I. Lenin.

The general crisis of capitalism is the all-round crisis of the world capitalist system as a whole, characterised by wars and revolutions, by a struggle between moribund capitalism and growing socialism. The general crisis of capitalism involves all sides of capitalism, both economic and political. Underlying it are, on the one hand, the ever more intense disintegration of the world capitalist system, from which more and more countries are falling away, and, on the other hand, the growing economic might of the countries which have already fallen away from capitalism.

The fundamental features of the general crisis of capitalism are: the splitting of the world into two systems, the capitalist and the socialist, the crisis of the colonial system of imperialism, the sharpening of the problem of markets and, in connection with this, the increase of chronic under-capacity working of enterprises and chronic mass unemployment in the capitalist countries.

The uneven development of the capitalist countries in the epoch of imperialism gives rise in course of time to a lack of correspondence between the existing division of markets, spheres of influence and colonies and the changed relation of forces among the principal capitalist States. On this basis there arises a sharp break in the equilibrium within the world system of capitalism, leading to the formation of hostile groupings of capitalist States and to war between these groupings. World wars sap the strength of imperialism and facilitate the breaching of the imperialist front and the falling away of one country after another from the capitalist system.

The general crisis of capitalism covers an entire period of history, forming part of the epoch of imperialism. As already mentioned, the law of uneven economic and political development of the capitalist countries in the imperialist epoch predetermines a variation in the time when socialist revolution becomes ripe in different countries. Lenin pointed out that the general crisis of capitalism is not an event which takes place in a single moment of time but a long period of stormy economic and political upheavals and sharp class struggle, a period of "the collapse of capitalism on its full scale, and the birth of a socialist society". (Lenin, "Report on the Revision of the Programme and Change of the Name of the Party, at the VIIth Congress of the R.C.P.(B)", *Selected Works*, 12-vol. edition, vol. VIII, p. 315.) This determines the historical inevitability of a prolonged co-existence of the two systems—socialist and capitalist.

The general crisis of capitalism began in the period of the first world war and developed especially as a result of the falling-away of the Soviet Union from the capitalist system. This was the *first stage* of the general crisis of capitalism. In the period of the second world war the *second stage* of the general crisis of capitalism developed, especially after the falling away from the capitalist system of the People's Democracies in Europe and Asia.

The First World War and the Beginning of the General Crisis of Capitalism

The first world war was the result of the sharpening of contradictions between the imperialist Powers arising out of the struggle to re-divide the world and spheres of influence. Alongside the old imperialist Powers new ones had grown up which had been too late for the partition of the world. German imperialism appeared on the scene. Germany had taken the path of capitalist development later than a number of other countries, and arrived to join in the share-out of markets and spheres of influence when the world was already divided up among the old imperialist Powers. As early as the beginning of the twentieth century, however, Germany, having outstripped Britain as regards the level of industrial development, took second place in the world and the first in Europe. Germany

began to squeeze Britain and France out of the world markets. The change in the relation of forces, economic and military, between the principal capitalist States brought to the front the question of re-dividing the world. In the struggle for the re-division of the world, Germany, taking her stand in alliance with Austria-Hungary, clashed with Britain, France and Tsarist Russia, which was dependent on them.

Germany strove to take away part of the British and French colonies, to oust Britain from the Near East and to put an end to her maritime supremacy, to take from Russia the Ukraine, Poland and the Baltic regions, and to bring under subjection the whole of Central and South-eastern Europe. In its turn, Britain strove to put an end to German competition on the world market and to establish firmly its dominion over the Near East and the continent of Africa. France set out to recover Alsace and Lorraine, annexed by Germany in 1871, and to grab the Saar basin from Germany. Predatory aims were also pursued by Tsarist Russia and other bourgeois States which took part in the war.

The struggle between the two blocs of imperialists, the Anglo-French and the German, for the re-division of the world affected the interests of all the imperialist countries and so led to a world war in which Japan, the U.S.A. and a number of other countries took part. The first world war was imperialistic on both sides.

The war shook the capitalist world to its very foundations. In the scale on which it was fought it threw into the shade all previous wars in the history of mankind.

The war provided the monopolies with a source of enormous enrichment. The capitalists of the U.S.A. did especially well out of it. The profits of the American monopolies as a whole in 1917 were three or four times what they had been in 1914. In the five years of the war (1914 to 1918) the American monopolies received more than 35 milliard dollars profit (before deduction of tax). The biggest monopolies increased their profits tenfold.

The population of the countries which actively participated in the war amounted in all to about 800 million. About 70 million men served in the armies. The war swallowed up as many human lives as had perished in all wars in Europe during the previous thousand years. The number of killed was 10 million, the number of wounded and maimed exceeded 20 million. Millions of people died from famine

and epidemics. The war brought colossal damage to the economies of the fighting countries. The direct war expenses of the combatant Powers amounted for the whole period of the war (1914–18) to 208 milliard dollars (in the prices of those years).

During the war the role played by the monopolies grew ever greater and the subjection of the State machine to them was increased. The State machine was utilised by the biggest monopolies for the purpose of securing maximum profits. Wartime "regulation" of the economy was carried out so as to enrich the biggest monopolies. To this end the working day was lengthened in a number of countries, strikes were forbidden, barrack discipline and forced labour were introduced in the enterprises. The main source of the unprecedented growth of profits was furnished by State war contracts paid for out of the Budget. War expenses absorbed a huge share of the national income during the war, and were covered first and foremost by increases in taxes on the working people. The bulk of the war appropriations went to the monopolists in the form of payment for war contracts, grants and subsidies. The prices paid under war contracts ensured enormous profits for the monopolies. Lenin called war contracts legalised treasury-looting. The monopolies gained through the lowering of the real wages of the workers by means of inflation, and also through direct plundering of occupied territories. During the war the rationing system of distributing products was introduced in the European countries, and this restricted consumption by the working people to a bare minimum.

The war carried the poverty and misery of the masses to extreme limits, sharpened class contradictions, and brought about an upsurge of the revolutionary struggle of the working class and the working peasantry in the capitalist countries. Moreover, the war, which from European became world-wide, dragged into its orbit the rear of imperialism as well—the colonies and dependent countries—which facilitated the joining together of the revolutionary movement in Europe with the national liberation movement of the peoples of the East.

The war weakened world capitalism.

> "The European war", wrote Lenin in those days, "means the greatest crisis in history, the beginning of a new epoch. Like every crisis, the war has made deeply-hidden contradictions more acute and brought them to the surface." (Lenin, "Dead Chauvinism and Living Socialism", *Works*, Russian edition, vol. xxi, p. 81.)

It called forth a mighty upsurge of the anti-imperialist revolutionary movement.

The Victory of the Great October Socialist Revolution and the Splitting of the World into Two Systems: Capitalist and Socialist

The proletarian revolution breached the front of imperialism first of all in Russia, which turned out to be the weakest link in the imperialist chain. Russia was a focal point of all the contradictions of imperialism. In Russia the tyranny of capital was interwoven with Tsarist despotism, with survivals of serfdom and with colonial oppression in relation to the non-Russian peoples. Lenin called Tsardom "military-feudal imperialism".

Tsarist Russia was a reserve of western imperialism as a sphere of investment of foreign capital, which controlled the decisive branches of industry (fuel and metallurgy), and as a support for western imperialism in the East. The interests of Tsardom and of western imperialism were merged in a single tie-up.

The high degree of concentration of Russia's industry and the existence of such a revolutionary party as the Communist Party had transformed the working class of Russia into the greatest political force in the country. The Russian proletariat possessed a valuable ally in the peasant poor, which made up the great majority of the peasant population. Under these conditions it was inevitable that the bourgeois-democratic revolution in Russia should inevitably grow over into the socialist revolution, assume an international character and shake the very foundations of world imperialism.

The international significance of the great October Socialist Revolution consists in the facts that, first, it breached the front of imperialism, overthrew the imperialist bourgeoisie in one of the largest capitalist countries and for the first time in history placed the proletariat in power; secondly, it not only shook imperialism in the metropolitan countries but also struck a blow at imperialism's rear, undermining its domination in the colonies and dependent countries; thirdly, by weakening the power of imperialism in the metropolitan countries and shaking its domination in the colonies, it thereby brought into question the very existence of world imperialism as a whole.

The great October Socialist Revolution meant a radical turn in the world history of mankind; it opened a new epoch—the epoch of proletarian revolutions in the countries of imperialism and national liberation movements in the colonies. The October

Revolution wrested from the rule of capital the working people of one-sixth of the earth and brought about the splitting of the world into two systems, capitalist and socialist, which is the most vivid expression of the general crisis of capitalism. As a result of the splitting of the world into two systems a contradiction arose which was new in principle and was of world historical importance—the contradiction between dying capitalism and growing socialism. The struggle between the two systems, capitalism and socialism, became of decisive importance in the present epoch.

Describing the general crisis of capitalism, J. V. Stalin said:

> "It means, first of all, that the imperialist war and its aftermath intensified the decay of capitalism and upset its equilibrium, that we are now living in an epoch of wars and revolutions, that capitalism has already ceased to be the *sole* and *all-embracing* system of world economy, that side by side with the *capitalist* system of economy there is the *socialist* system, which is growing, thriving, which stands opposed to the capitalist system and by its very existence demonstrates the decaying state of capitalism and shakes its foundations." (Stalin, "Political report of the Central Committee to the XVI Congress of the C.P.S.U.(B)", *Works*, vol. XII, p. 253.)

The first years after the war of 1914–18 were a period of terrible collapse in the economy of most of the capitalist countries that took part in the war, a period of bitter conflict between the proletariat and the bourgeoisie. As a result of the upheaval suffered by world capitalism and under the direct influence of the great October Socialist Revolution, a number of revolutions and revolutionary outbreaks occurred both on the continent of Europe and in the colonial and semi-colonial countries. This powerful revolutionary movement, and the sympathy and support shown to Soviet Russia by the working masses of the whole world, doomed to failure all the attempts of world imperialism to smother the first socialist republic in the world. In 1920–1 a deep-going economic crisis broke out in the U.S.A. and a number of other capitalist countries.

Having emerged from the post-war economic chaos, the capitalist world entered in 1924 upon a period of relative stabilisation. The revolutionary upsurge gave way to a temporary ebb of the revolution in a number of European countries.

There was a temporary, partial stabilisation of capitalism, achieved by redoubled exploitation of the working people. Under the flag of capitalist "rationalisation" a ruthless intensification of labour was introduced. Capitalist stabilisation inevitably led to a sharpening of the contradictions between the workers and the capitalists, between imperialism and the colonial peoples, between the imperialists of different countries. Beginning in 1929, a world economic crisis brought capitalist stabilisation to an end.

Meanwhile, the national economy of the U.S.S.R. was developing steadily on an upward trend, without crises or catastrophes. The Soviet Union was in those days the only country which did not know crises and other contradictions of capitalism. The industry of the Soviet Union went forward continually, at rates never seen before in history. In 1938 the U.S.S.R.'s industrial production was 908·8 per cent of the 1913 figure, whereas industrial production in the U.S.A. was only 120 per cent, Britain's was 113·3 per cent and France's 93·2 per cent. The contrast of the economic development of the U.S.S.R. with that of the capitalist countries revealed graphically the decisive advantages of the socialist system of economy over the capitalist system.

The rise of the first Socialist State in the world had a very great influence on the development of the revolutionary struggle of the working people.

The experience of the U.S.S.R. has shown that the workers can successfully govern a country and build up and manage its economy without the bourgeoisie. Every year of peaceful emulation between socialism and capitalism undermines and weakens capitalism and strengthens socialism.

The example of the working people of the Soviet Union and of the other countries which have overthrown the capitalist yoke rouses the oppressed peoples to fight for their freedom against imperialism. International imperialism strives to smother or, at least, to weaken the Socialist State. The camp of imperialism tries to settle its own internal difficulties and contradictions through kindling war against the U.S.S.R. and the countries of People's Democracy. In the struggle against imperialist intrigues the Soviet Union relies upon its economic and military might and on the support of the international proletariat and the working people of the whole world.

The experience of history shows that, in the struggle between the two systems, the socialist system of economy is assured of victory over capitalism on a basis of peaceful emulation. The Soviet State proceeds in its foreign policy from the possibility of peaceful co-existence of the two systems, capitalism and socialism, and resolutely follows a policy of peace between the peoples.

Crisis of the Colonial System of Imperialism

Among the most important features of the general crisis of capitalism is the crisis of the colonial system of imperialism. This crisis, which arose in the period of the first world war, is becoming wider and deeper. *The crisis of the colonial system of imperialism* means an acute sharpening of the contradiction between the imperialist Powers, on the one hand, and the colonies and dependent countries, on the other, and the development of the struggle of the oppressed peoples of these countries for national liberation and the liberation of a number of colonies from imperialist enslavement.

The great October Socialist Revolution has played a very great role in the rise of the national liberation movement in the colonies and dependent countries. It unleashed a number of mighty national liberation movements in the countries of the colonial East. The victory of the October Socialist Revolution in Russia contributed greatly to the rise of the national liberation struggle of the great Chinese people. Powerful movements for national liberation also arose in India, Indonesia and other countries. The great October Socialist Revolution opened an epoch of colonial revolutions bringing to the peoples of the colonies liberation from the imperialist yoke.

In the period of the general crisis of capitalism, the role played by the colonies as sources of maximum profits for the monopolies becomes greater. The sharpened struggle between the imperialists for markets and spheres of influence, and the more acute difficulties and contradictions in the capitalist countries, lead to intensified pressure being put on the colonies by the imperialists, to increased exploitation of the peoples of the colonial and dependent countries. This brings about an intensification of the anti-imperialist struggle for national liberation.

Another factor in the crisis of the colonial system is the

development of industry and native capitalism in the colonies, which renders more acute the problem of the world capitalist market and leads to the growth of an industrial proletariat in the colonies.

The first world war, during which the export of manufactured goods from the metropolitan countries sharply declined, gave a notable fillip to the industrial development of the colonies. In the inter-war period, as a result of the increased export of capital to the backward countries, capitalism continued to develop in the colonies. In connection with this the proletariat grew in numbers in these countries.

The total number of industrial enterprises in India increased from 2,874 in 1914 to 10,466 in 1939, and connected with this was an increase in the number of factory workers. The number of workers in Indian manufacturing industry, which amounted to 951,000 in 1914, was 1,751,000 in 1939. The total number of workers in India, including miners, railway and water transport workers and also plantation workers, amounted in 1939 to about 5 million persons. In China (less Manchuria) the number of industrial enterprises (employing not less than thirty workers), grew from 200 in 1910 to 2,500 in 1937, and the number of workers employed in them from 150,000 in 1910 to 2,750,000 in 1937. Taking into consideration that Manchuria was more highly developed industrially, the number of workers in industry and transport (not including small-scale enterprises) amounted in China on the eve of the second world war to about 4 million. The numbers of the industrial proletariat grew considerably in Indonesia, Malaya and in the African and other colonies.

The exploitation of the working class in the colonies becomes more intense in the period of the general crisis of capitalism. A commission which investigated the conditions of the Indian workers in 1929–31 established the fact that the family of an ordinary worker had to live on wages which worked out per head at only about half what it cost to keep a prisoner in the prisons of Bombay. The bulk of the workers in the colonies fall into debt-bondage to the money-lenders. Forced labour is widespread in the colonies, especially in mining and agriculture (on the plantations).

The working class of the colonies is an active and most consistent fighter against imperialism, able to rally the vast masses of the peasantry around itself and lead the revolution to its conclusion. The alliance of the working class with the peasantry under the leadership of the working class is a decisive condition for the success of the national liberation struggle of the oppressed peoples of the colonial countries. Throughout

the entire course of economic and political development, the working class of the colonies comes forward more and more as the leading force in the national liberation movement.

As has been shown, although a certain amount of industrial development takes place, imperialism hinders the economic development of the colonies. Though a certain degree of development of native industry takes place in the colonial countries, heavy industry still does not develop and they remain agrarian raw-material appendages of the metropolitan countries. Imperialism preserves the survivals of feudal relations which exist in the colonies, using them to help it intensify the exploitation of the oppressed peoples. The development of capitalist relations which takes place in the countryside, breaking up the natural forms of economy, only intensifies the exploitation and pauperisation of the peasantry. The colonial revolution is a junction of two streams of the revolutionary movement—the movement against feudal survivals and the movement against imperialism. It is not possible to abolish feudal survivals in the colonies without a revolutionary overthrow of imperialist oppression. The biggest force in colonial revolutions consists of the peasantry, which makes up the bulk of the population in the colonies.

The national bourgeoisie in the colonies, whose interests are encroached upon by foreign capital, at a certain stage of the revolution takes part in the struggle against imperialism. Given correct proletarian leadership of the movement, the inconsistency and wavering of the national bourgeoisie in the struggle against imperialism and feudal survivals can be overcome, and the national bourgeoisie is capable of playing a progressive role in certain periods of the revolution. At the same time, as the national liberation struggle of the colonial peoples develops, the activity of the reactionary forces of the feudal landlords and compradore bourgeoisie is intensified.

The growth of the working class in the colonial countries and the intensification of the national liberation struggle of the peoples of these countries in the period of the general crisis of capitalism signify a new stage in the development of the national liberation movement. Where formerly the national liberation struggle led only to the consolidation of the power of the bourgeoisie, in the period of the general crisis of capitalism it becomes possible for the working class to win the hegemony

and secure the development of the given country along the road to socialism, by-passing the capitalist stage.

In the period of the general crisis of capitalism the national liberation movement in the colonies links itself ever more closely with the revolutionary struggle of the working class in the metropolitan countries. The colonies and dependent countries are transformed to an ever greater extent from reserves of imperialism into reserves of the socialist revolution.

Aggravation of the Problem of Markets; Chronic Under-capacity Working of Enterprises and Chronic Mass Unemployment

An integral feature of the general crisis of capitalism is the progressive sharpening which the problem of markets undergoes, and the chronic under-capacity working of enterprises and chronic mass unemployment which result from this.

The sharpening of the problem of markets in the period of the general crisis of capitalism is caused first and foremost by the falling-away of a number of countries from the world system of imperialism. The departure from the capitalist system of Russia, with its huge markets and sources of raw material, could not but have an effect on the economic situation of the capitalist world. In the period of the general crisis of capitalism the impoverishment of the working people, whose standard of living the capitalists try to restrict to the absolute minimum, inevitably gets worse, and as a result the effective demand of the masses declines. The development of native capitalism in the colonies and dependent countries renders the problem of markets more acute, for this native capitalism begins to compete on the markets with the old capitalist countries. The development of the national-liberation struggle of the peoples of the colonial countries also complicates the position of the imperialist States in overseas markets.

Consequently, characteristic of the inter-war period was a *relative stability of markets*, while the production potentialities of capitalism grew. This could not but sharpen to the utmost all the contradictions of capitalism.

> "This contradiction between the growth of the production potentialities and the relative stability of markets lies at the

root of the fact that the problem of markets is today the fundamental problem of capitalism. An aggravation of the problem of markets in general, and especially an aggravation of the problem of foreign markets, and an aggravation of the problem of markets for capital exports in particular—such is the present state of capitalism. This, indeed, explains why it is becoming a common thing for mills and factories to work below capacity." (Stalin, "Political Report of the Central Committee to the XV Congress of the C.P.S.U.(B), *Works*, English edition, vol. x, pp. 281–2.)

In previous years mass under-capacity working of factories was a feature only of economic crises. Characteristic of the period of the general crisis of capitalism is *chronic under-capacity working of enterprises.*

Thus, in the boom period of 1925–9 the productive capacity of manufacturing industry in the U.S.A. was utilised only to the extent of 80 per cent. In 1930–4 the utilisation of the productive capacity of manufacturing industry fell to 60 per cent. Moreover, it must be taken into account that U.S. bourgeois statistics, in calculating the productive capacity of manufacturing industry, did not include in its reckoning enterprises which were inactive for a long period and took as normal enterprises where only one shift was worked.

Closely connected with the chronic under-capacity working of enterprises is *chronic mass unemployment.* Down to the first world war the reserve army of labour grew during years of crisis but in boom periods shrank to comparatively small dimensions. In the period of the general crisis of capitalism unemployment attains huge dimensions and remains at a high level also in the years of recovery and boom. The reserve army of labour is transformed into a standing army of unemployed numbering many millions.

At the peak of the industrial boom between the two world wars, in 1928, the number of wholly unemployed in the U.S.A. amounted to about two millions, but in the following years, right down to the second world war the number never fell below eight millions. In Britain the number of insured workers wholly unemployed never fell, in the period 1922–38, below 1,200,000 persons annually. Millions of workers subsisted on casual work and were victims of partial unemployment.

Chronic mass unemployment markedly worsens the position of the working class. It enables the capitalists to intensify labour in factories to an enormous extent, to dismiss workers already exhausted by excessive labour and to engage in their place fresh, stronger and healthier workers. In this connection the "working life" of the working people is reduced, and also the length of their employment. The working people become more and more uncertain what the morrow will bring. The capitalists make use of chronic mass unemployment to effect a sharp reduction in the wages of the employed workers. The incomes of working-class families are reduced also as a result of the reduction in the number of the members of the family at work.

In the U.S.A., according to bourgeois statistical data, the growth of unemployment from 1920 to 1933 was accompanied by a fall in average annual wages of the workers employed in industry, building and railway transport from 1,483 dollars in 1920 to 915 dollars in 1933, i.e., by 38 per cent. The unemployed members of the family had to be supported out of the meagre wages of the working members. If the total wage fund is related not merely to the employed workers but to the workers as a whole, both employed and unemployed, it is seen that the wages per worker (including the unemployed) fell in connection with the growth of unemployment from 1,332 dollars in 1920 to 497 dollars in 1933, i.e., by 62·7 per cent.

Chronic mass unemployment has a grave effect also on the position of the peasantry. In the first place, it contracts the internal market and reduces the urban population's demand for agricultural produce. This leads to agrarian crises becoming more serious. Secondly, it worsens the situation on the labour market and renders it difficult for peasants who have been ruined, and are seeking work in the towns, to find a place in industry. Consequently, agrarian surplus-population and the pauperisation of the peasantry increase. Chronic mass unemployment, like chronic under-capacity working of enterprises, is a proof of the decay of capitalism, its inability to make use of the productive forces of society.

The intensified exploitation of the working class and the reduction in its standard of living in the period of the general crisis of capitalism leads to a further sharpening of the contradictions between labour and capital.

Deepening of Crises of Overproduction and Changes in the Capitalist Cycle

The lagging of markets behind growth of production potentialities in the capitalist world, the existence of chronic undercapacity working of enterprises and chronic mass unemployment leads to crises of overproduction becoming deeper and to essential changes taking place in the capitalist cycle.

These changes can be summed up as follows: the length of the cycle is shortened, so that crises become more frequent; the devastating effects of crises grow greater; it is harder to find a way out of the crisis, so that the length of the crisis phase of the cycle becomes greater, as also that of the depression phase, while booms become less stable and less prolonged.

Before the first world war economic crises usually occurred every 10–12 years, and only occasionally within 8 years of each other. In the period between the two world wars, from 1920 to 1938, i.e., in 18 years, there were three economic crises: in 1920–1, in 1929–33 and in 1937–8.

The depth of the fall in production in the period of the general crisis of capitalism taken as a whole increases. The output of manufacturing industry in the U.S.A. fell during the crisis of 1920–1 (i.e., from the peak point before the crisis to the lowest point reached during the crisis) by 23 per cent, during the 1929–33 crisis by 47·1 per cent, and during that of 1937–8 by 22·9 per cent.

The economic crisis of 1929–33 was the deepest and most acute crisis in the history of capitalism. In this the impact of the general crisis of capitalism was felt with great force.

"The present crisis", said E. Thälmann, describing the crisis of 1929–33, "is of the nature of a *cyclical crisis* within the setting of the *general crisis* of the capitalist system in the epoch of monopoly capitalism. In this matter we must grasp the dialectical interaction between the general crisis and a periodical crisis. On the one hand, the periodical crisis assumes unprecedentedly acute forms, because it unfolds against the background of the general crisis of capitalism and is determined by the conditions of monopoly capitalism. On the other hand, the damage caused by the periodical crisis in its turn deepens and accelerates the general crisis

of the capitalist system." (Thälmann, *Tasks of the People's Revolution in Germany*, Report to the Plenum of the C.C. of the Communist Party of Germany, January 15, 1931, pp. 27, 28.)

The economic crisis of 1929–33 involved all the countries of the capitalist world without exception. Consequently it proved impossible for some countries to manœuvre for their own advantage at the expense of others. The crisis struck with its maximum force at the strongest country of modern capitalism, the U.S.A. The industrial crisis in the principal capitalist countries was interwoven with an agricultural crisis in the agrarian countries, which resulted in aggravation of the economic crisis as a whole. Industrial production in the capitalist world as a whole fell by 36 per cent, and in certain countries fell still more. The turnover of world trade fell by two-thirds. The finances of the capitalist countries fell into complete confusion.

In the period of the general crisis of capitalism economic crises lead to an enormous increase in the numbers of persons unemployed.

The percentage of wholly unemployed at the time when production was at its lowest amounted, according to official figures for 1932, to 32 per cent in the U.S.A. and 22 per cent in Britain. In Germany the percentage of trade union members wholly unemployed amounted in 1932 to 43·8 per cent, while 22·6 per cent were partly unemployed. In absolute figures the number of wholly unemployed amounted in 1932: in the U.S.A. (according to official data) to 13·2 millions, in Germany to 5·5 millions, in Britain to 2·8 millions. In the capitalist world as a whole there were in 1933 40 million persons wholly unemployed. The number of semi-unemployed attained tremendous dimensions. Thus, in the U.S.A. the number of semi-unemployed amounted in February 1932 to 11 million.

Chronic under-capacity working of factories and extreme impoverishment of the masses *make it hard to emerge from the crisis*. Chronic under-capacity working of enterprises restricts the field for renewal and expansion of fixed capital and hinders the transition from depression to recovery and boom. Chronic mass unemployment and the policy of high monopoly prices work in the same way, restricting the expansion of the market for consumer goods. This means a lengthening of the crisis phase. Whereas previously crises worked themselves out in a year or two, the crisis of 1929–33 lasted over four years.

The recovery and boom which succeeded the crisis of 1920–1 took place quite unevenly and were more than once interrupted by partial crises. In the U.S.A. partial crises of overproduction occurred in 1924 and 1927. In Britain and Germany a considerable fall in production took place in 1926. The crisis of 1929–33 was succeeded not by an ordinary depression but by a *depression of a special type*, which did not lead to a new boom and industrial prosperity, though it did not return to the point of maximum decline. The depression of a special type was followed by a certain recovery which, however, did not lead to prosperity on a new, higher basis.

The industrial production of the capitalist world in 1937 exceeded the level of 1929 only by 3·5 per cent, and in many capitalist countries (U.S.A., France, Italy, etc.) did not even attain the 1929 level. In the middle of 1937 a fresh economic crisis began in the capitalist world, starting in the U.S.A. and later spreading to Britain, France and a number of other countries.

The total volume of industrial production in the capitalist world in 1938 was 10·3 per cent lower than in 1937; in the U.S.A. it was 21·8 per cent lower, in Britain 12 per cent, in France 9 per cent. Compared with 1929 the total volume of industrial production in 1938 reached in the U.S.A. the level of 72·3 per cent, in Britain 98·7 per cent, in France 66 per cent and in Italy 98·5 per cent.

The crisis of 1937–8 differed from that of 1929–33 first and foremost in that it arose, not after a phase of industrial prosperity as had happened in 1929, but after a depression of a special type and a certain recovery. Furthermore, this crisis began in the period when Japan had started war in China, when Germany and Italy had switched their economies on to a war basis, and when all the remaining capitalist countries had begun to put themselves on a war footing. This meant that capitalism had very much less resources for a normal emergence from this crisis than it had during the crisis of 1929–33.

In the conditions of the general crisis of capitalism agrarian crises become more frequent and more profound. On the heels of the agrarian crisis of the first half of the 1920's there began in 1928 a fresh, deep-going agrarian crisis, which lasted right down to the second world war. Relative overproduction of

agricultural produce led to a marked fall in prices, which worsened the position of the peasantry.

In the U.S.A. in 1921 the index of prices paid to farmers fell to 58·5 per cent of the level of 1920, and in 1932 to 43·6 per cent of the level of 1928. The output of arable farming in the U.S.A. fell in 1934 to 67·9 per cent of the 1928 level and 70·6 per cent of the 1920 level. Farmers' incomes fell.

The ruin and pauperisation of the bulk of the peasantry brings about a growth in revolutionary sentiments among them and pushes them along the road of struggle against capitalism under the leadership of the working class.

Arms drives and world wars, which are used by the monopolies to secure maximum profits, have a big effect on the course of capitalist reproduction and the capitalist cycle, in the conditions of the general crisis of capitalism. The factors of war inflation may lead to a temporary recovery of economic activity and hold back the development of a crisis which has begun, or slow down the advance of a fresh economic crisis. But wars and the militarisation of the economy cannot save capitalist economy from crises. Indeed, they facilitate the further deepening and sharpening of economic crises. World wars lead to destruction of productive forces and social wealth on a huge scale: factories, stocks of material wealth, human lives. Wars, by giving a one-sided direction to the development of the national economy, intensify the unevenness and disproportional character of capitalist economy. Militarisation of the economy means an expansion of the production of armaments and supplies for the armed forces at the price of a contraction of production of consumer goods, and an excessive increase in taxation and rise in the cost of living, which inevitably lead to a reduction in consumption by the population and a sharpening of the contradiction between production and consumption, and prepare the onset of another, still deeper economic crisis.

The intensification of the decay of capitalism in the period of its general crisis is shown in an all-round lowering in the rate of production. Average annual rates of growth of industrial production in the capitalist world were: in the period 1890–1913—3·7 per cent, and in 1913–53—2·5 per cent. Along with this the unevenness of the development of capitalist production sharply intensified.

During the general crisis of capitalism the monopolist bourgeoisie, striving to fend off the collapse of the capitalist system and to retain its domination, conducts an onslaught on the standard of living and democratic rights of the working people and resorts to police methods of rule. In all the principal capitalist countries the development of State-monopoly capitalism is intensified.

Being no longer able to rule by the old methods of parliamentarian and bourgeois democracy, in a number of countries —Italy, Germany, Japan and others—the bourgeoisie set up fascist régimes. *Fascism* is the open, terrorist dictatorship of the most reactionary and aggressive elements of finance capital. Fascism sets itself the aims, internally, of smashing the organisations of the working class and crushing all progressive forces, and, externally, of preparing and launching a war of conquest for domination of the world. Fascism seeks to realise these aims by methods of terror and social demagogy.

Thus, the world economic crisis of 1929–33 and the crisis of 1937–8 led to a marked sharpening of the contradictions both within the capitalist countries and between them. The imperialist States sought a way out of these contradictions along the road of preparation for a war for a new re-division of the world.

BRIEF CONCLUSIONS

(1) The general crisis of capitalism is an all-round crisis of the world capitalist system as a whole. It embraces both economics and politics. Underlying it is the continually increasing disintegration of the world system of capitalism, from which country after country is falling away on the one hand, and, on the other, the growing economic might of the countries which have broken away from capitalism.

(2) The general crisis of capitalism embraces an entire period of history, in the course of which take place the breakdown of capitalism and victory of socialism on a world scale. The general crisis of capitalism began during the first world war, and especially as a result of the falling away of the Soviet Union from the capitalist system.

(3) The great October Socialist Revolution meant a radical turn in the world history of mankind, from the old, capitalist

world to the new, socialist world. The splitting of the world into two systems—the system of capitalism and the system of socialism—and the struggle between these is the fundamental symptom of the general crisis of capitalism. With the splitting of the world into two systems two lines of economic development made their appearance. While the capitalist system becomes more and more entangled in insoluble contradictions, the socialist system develops on a steadily upward-moving line, without crises and catastrophes.

(4) The crisis of the colonial system of imperialism is one of the most important features of the general crisis of capitalism. This crisis consists of the development of the national liberation struggle, which shakes the foundations of imperialism in the colonies. The working class takes the lead of the struggle of the oppressed peoples for national liberation. The great October Socialist Revolution unleashed the revolutionary activity of the oppressed peoples and opened the epoch of colonial revolutions headed by the proletariat.

(5) In the conditions of the general crisis of capitalism, as a result of the falling-away of a number of countries from the system of imperialism, of the increased impoverishment of the working people and also of the development of capitalism in the colonies, the problem of markets becomes more acute. A characteristic feature of the general crisis of capitalism is chronic under-capacity working of enterprises and chronic mass unemployment. Under the impact of the sharpening of the market problem, of the chronic under-capacity working of enterprises and of chronic mass unemployment there occur an aggravation of economic crises and essential changes in the capitalist cycle.

CHAPTER XXII

THE AGGRAVATION OF THE GENERAL CRISIS OF CAPITALISM AFTER THE SECOND WORLD WAR

The Second World War and the Second Stage of the General Crisis of Capitalism

Lenin foresaw that the first world war would be followed by other wars, called forth by imperialist contradictions. "Everyone can see", he said, after the end of the 1914–18 war, "that another war of the same kind is inevitable if the imperialists and the bourgeoisie remain in power." (Lenin, "Speech at Celebration Meeting of the Moscow Soviet in Honour of the Anniversary of the Third International", *Works*, Russian edition, vol. xxx, p. 398.)

The distribution of spheres of influence among the imperialist countries which resulted from the first world war proved still less lasting than that which had prevailed before the war. The role of Britain and France in world industrial production markedly declined, and their positions in the world capitalist market deteriorated. The American monopolies, which greatly enriched themselves during the war, expanded their production capacity and advanced to first place in the capitalist world in respect of export of capital. Germany, after suffering defeat in the first world war, rapidly restored its heavy industry with the help of American and also British loans, and began to demand a re-division of spheres of influence. Japan took the road of aggression against China. Italy began a struggle to seize a number of colonial possessions belonging to other Powers.

Thus, the operation during the first world war of the law of uneven development of capitalist countries led to another sharp break-up of the equilibrium within the world system of capitalism. The formation in the capitalist world of two hostile camps led to the second world war.

The second world war, which was prepared by the forces of international imperialist reaction, was begun by the bloc of fascist States—Germany, Japan and Italy. In the period

preceding the war the ruling circles of the U.S.A., Britain and France tried to turn the aggression of German fascism and Japanese imperialism against the Soviet Union, conniving in every possible way at the actions of the aggressors and giving them the utmost encouragement to start a war. However, German imperialism began the war first against France, Britain and the U.S.A., and only later attacked the Soviet Union. The second world war was a war of conquest and plunder on the part of Germany and its allies in robbery, fascist Italy and militarist Japan. It was a just war of liberation on the part of the Soviet Union and the other peoples who were subjected to the fascist onslaught.

In the scale of military operations, the numbers of the armed forces involved and the amount of armaments employed, the size of the human sacrifices and the volume of destruction of material wealth, the second world war far outstripped the first. Many countries of Europe and Asia suffered gigantic human losses and unprecedented material damage.

The direct war expenditure of the States taking part in the war came to about a thousand milliard dollars, which does not include losses from destruction caused by military operations. The economy and culture of many peoples of Europe and Asia suffered tremendous damage from the robber rule of the German-fascist and Japanese occupying forces.

The war brought about a further development of State-monopoly capitalism. A whole series of measures connected with the war, which were taken by the bourgeois States, were directed to ensuring maximum profits to the magnates of finance capital. These purposes were served by such measures as giving to the biggest monopolies war contracts worth milliards on extraordinarily advantageous terms; handing over State enterprises to the monopolies at trivial prices; distribution of raw material and labour-power in short supply in the interests of the leading companies; compulsory closing-down of hundreds and thousands of small and medium enterprises or their subjection to a few arms-industry firms.

The war expenditure of the belligerent capitalist Powers was met by means of taxation, loans and the issuing of paper money. In 1943–4, in the principal capitalist countries (U.S.A., Britain, Germany) taxes absorbed about 35 per cent of the national income. Inflation brought about a tremendous price-rise. The lengthening of the working day, the militarisation of labour, the increase in the burden of taxation and of the high cost of living, the fall in the level of consumption—all this meant a still greater intensification of the exploitation of the working class and the bulk of the peasantry.

The monopolies amassed fabulous profits during the war. The profits of the American monopolies grew from 3·3 milliard dollars

in 1938 to 17 milliard in 1941, 20·9 milliard in 1942, 24·6 milliard in 1943 and 23·3 milliard in 1944. The monopolies of Britain and France and of fascist Germany, Italy and Japan also made huge profits during the war.

During the war and after the war the economic and political tyranny of the monopolies and the weight of their yoke in the capitalist countries increased still more. A particular expansion took place in the scale of operations of the American monopolies such as United States Steel, the Dupont chemical concern, the General Motors and Chrysler automobile firms, General Electric and others. The General Motors concern, for example, now owns 102 factories in the U.S.A. and 33 in 20 other countries; about half a million workers are employed in these enterprises.

Each of the two capitalist coalitions which grappled with each other during the first period of the war hoped to smash the other and both German and American imperialism strove to achieve world domination. It was thus that they sought their way out of the general crisis. At the same time, both of the capitalist groupings reckoned on the Soviet Union perishing or being substantially weakened in the course of the war, and also on strangling the working-class movement in the metropolitan countries and the national liberation movement in the colonies.

Thanks to the heroic struggle waged by the Soviet people and the economic and military might of the U.S.S.R., and thanks to the upsurge of the anti-imperialist national liberation movement in Europe and Asia, these calculations of the imperialists were frustrated. The second world war ended in the complete rout of the fascist States by the armed forces of the anti-Hitler coalition. The decisive part in this rout was played by the Soviet Union, which saved from the fascist enslavers the civilisation, freedom, independence and very existence of the peoples of Europe. Contrary to the calculations of the imperialists, who had expected it to be destroyed or weakened, the Soviet State emerged from the war stronger than before and with enhanced international prestige. The great Patriotic War of the Soviet Union showed the strength and might of the first socialist Power in the world and the enormous advantage of socialist society and the socialist form of State. The rout of the fascist aggressors unloosed the forces of the national-liberation movement in Europe and Asia.

The law of social development in the present epoch, discovered by Lenin, by virtue of which the revolutionary supersession

of the capitalist system of economy by the socialist takes place through a gradual falling away of country after country from the world system of capitalism, was fully confirmed.

Contrary to the imperialists' calculations that the revolutionary movement would be weakened and routed, the war led to more countries leaving the capitalist system. The peoples of a number of countries of Central and South-eastern Europe—Poland, Czechoslovakia, Yugoslavia, Rumania, Hungary, Bulgaria, Albania—threw off the yoke of the reactionary régimes which oppressed them and took power into their own hands. People's democratic republics carried out fundamental social and economic changes and took the road of building the foundations of socialism. The formation of the German Democratic Republic constituted a grave setback to world imperialism and a noteworthy success for the camp of peace and democracy; it is a stronghold of the democratic forces of the German people in their struggle to form a united, democratic and peace-loving Germany.

Contrary to the imperialists' calculations of a further enslavement of the peoples of the colonies and dependent countries, a mighty upsurge of the national liberation struggle took place in these countries. Very great historic changes occurred in Asia, where live more than half of the population of the entire world. The first place among those changes belongs to the victory of the great Chinese people, headed by the Chinese Communist Party, over the combined forces of imperialism and the internal feudal reaction. The people's revolution in China put an end to the rule of the feudal exploiters and foreign imperialists in the largest semi-colonial country in the world, liberating from the power of imperialism a people numbering six hundred millions. The formation of the Chinese People's Republic was the most powerful blow to the entire system of imperialism since the great October Socialist Revolution in Russia and the victory of the Soviet Union in the second world war. People's republics arose in Korea and Vietnam.

All this led to a further substantial change in the relation of forces between socialism and capitalism in favour of socialism and to the disadvantage of capitalism. As a result of the falling away from capitalism of a number of countries of Europe and Asia, more than a third of mankind have already been freed from the capitalist yoke.

The period of the second world war witnessed, especially after the breakaway of the people's democratic countries, both in Europe and in Asia, from the capitalist system, the development of the *second stage of the general crisis of capitalism*, which is marked by the further deepening and sharpening of this crisis.

The Formation of Two Camps in the International Arena and the Break-up of the Single World Market

A very important result of the second world war was the formation of the world camp of socialism and democracy, uniting the countries of Europe and Asia which have left the capitalist system, and headed by the Soviet Union and the Chinese People's Republic. Hundreds of millions of working people in the capitalist world and all progressive forces in the world of today sympathise with the ideas of peace, democracy and socialism. The camp of socialism and democracy is confronted by the camp of capitalism, headed by the U.S.A.

The second world war and the formation of two camps in the international arena has had as its most important economic consequence *the break-up of the single, all-embracing world market.*

> "The economic consequence of the existence of two opposite camps was that the single, all-embracing world market disintegrated, so that now we have two parallel world markets, also confronting one another." (Stalin, *Economic Problems of Socialism in the U.S.S.R.*, F.L.P.H. Edition, 1952, p. 35.)

This has caused a further aggravation of the general crisis of capitalism.

In the post-war period, the countries of the socialist camp have closed their ranks economically and arranged for close collaboration and mutual aid among themselves. Economic collaboration between the countries of the socialist camp is based upon a sincere desire to help one another and bring about a common economic advance. The principal capitalist countries—the U.S.A., Britain and France—have tried to subject the Soviet Union, China and the European countries of people's democracy to an economic blockade, expecting to be able to stifle them. But by doing this they have contributed, contrary to their intention, to forming and consolidating a new,

parallel world market. Thanks to the crisis-free development of the economies of the countries of the socialist camp, the new world market does not experience any difficulty in finding outlets for its goods: its capacity grows continually.

As a result of the falling-away of a number of countries in Europe and Asia from the system of imperialism, the sphere in which the forces of the principal capitalist countries (the U.S.A., Britain, France) have access to world resources is considerably reduced. This affects the United States with particular sharpness, as the productive capacity of American industry grew considerably during the war.

The narrowing of the sphere of access by the forces of the principal capitalist countries to world resources has brought about an intensification of the conflict between the countries which make up the imperialist camp, for outlets for their goods, for sources of raw material and for spheres of capital investment. The imperialists, and in the first place those of the U.S.A., are trying to overcome the difficulties arising from their loss of huge markets, through intensified expansion at the expense of their competitors, acts of aggression, arms drives and militarisation of the economy. But all these measures lead to a still greater aggravation of the contradictions of capitalism.

The two camps—the socialist one and the capitalist one—embody two lines of economic development. One line is a line of rapid development of the productive forces, continuous advance of peaceful economic activity and steady increase in the well-being of the working masses of the Soviet Union and the People's Democracies. The other line is the line of capitalist economy, holding back the development of the productive forces, a line of militarising the economy and reducing the standard of living of the working people, in conditions of the continually deepening general crisis of the world capitalist system.

The two camps—socialist and capitalist—embody two opposite trends in international politics. The aggressive circles of the U.S.A. and other imperialist States are following the road of preparing another war and intensifying reaction in the internal life of their own countries. The socialist camp is conducting a struggle against the threat of new wars and imperialist expansion, for the development of economic and cultural collaboration among the peoples, to strengthen peace and democracy.

The Crisis of the Colonial System of Imperialism Becomes More Acute

The second stage of the general crisis of capitalism is marked by a notable sharpening of the crisis of the colonial system. The attempts made by the imperialist Powers to pile on to the backs of the peoples of the dependent countries the burden resulting from the war and its aftermath have led to a considerable lowering of the standard of living of the working populations of the colonial world. The American monopolies are penetrating and striking root in the colonies and spheres of influence of the Western European countries, under the guise of "aid" to underdeveloped countries, which leads to still greater plundering of the enslaved peoples and to aggravation of the contradictions between the imperialist Powers. Meanwhile the development of industry in a number of colonial and semi-colonial countries, brought about by the war, has resulted in a growth of the proletariat, which is more and more actively opposing imperialism. As a result of all this the contradictions between the colonies and the metropolitan countries have become more and more acute, and the struggle of the peoples of the colonial world for national liberation has become more intense. The rout of the armed forces of German and Japanese imperialism created new and favourable circumstances for the success of this struggle. As a result of the second world war and the new upsurge of the national liberation struggle in the colonial and dependent countries there has taken place, in fact, a *breakdown of the colonial system of imperialism.*

The breakdown of the colonial system of imperialism is signalised first and foremost by the breaching of the imperialist front in a number of colonial and semi-colonial countries which have detached themselves from the world system of imperialism and established the system of people's democracy.

As mentioned already, the world front of imperialism has been breached in China and also in Korea and Vietnam. The great victory of the people's revolution in China has had an enormous influence on the whole colonial rear of imperialism. From an object of imperialist exploitation and of rivalry between groups of capitalist powers China has been transformed into an independent great Power, possessed of complete national sovereignty and conducting an independent policy in

the international arena. The Chinese People's Republic, linked by close ties of friendship and co-operation to the Soviet Union and all the other countries of the socialist camp, functions as a powerful factor for peace and democracy in the Far East and throughout the world.

The break-up of the colonial system of imperialism is further characterised by the fact that the peoples of a number of other colonial and dependent countries have won liberation from the colonial régime and taken the road of independent, sovereign development. Under the pressure of the national liberation movement in India, a country with a population exceeding 440 millions, British imperialism was obliged to withdraw its colonial administrative machine from that country. India was divided into two dominions—India and Pakistan. India became an independent republic, carrying on an independent policy in the international arena. Freed from colonial oppression, the Indian people are fighting to consolidate their independence, industrialise their country and introduce agrarian reforms. Besides India, Indonesia, Burma and Ceylon have also got rid of the colonial régime. The imperialist Powers, Britain and the U.S.A. first and foremost, are making all possible efforts to retain and extend their economic positions in these countries and deprive them of independence. This policy, however, is encountering a growing resistance on the part of the peoples of the countries concerned, who are fighting resolutely for their independence.

The sharpening of the crisis of the colonial system of imperialism is characterised by an upsurge of the national liberation movement of the oppressed peoples, which has taken on fresh distinctive features. In a number of colonial countries the leading role of the proletariat and the Communist Parties has grown and become stronger, which is an important condition for the success of the struggle of the enslaved peoples directed towards the expulsion of the imperialists and the introduction of democratic changes. Under the leadership of the working class a united national democratic front is being created and the alliance of the working class with the peasantry in the anti-imperialist and anti-feudal struggle is growing stronger. In certain enslaved countries the development of the national liberation movement has led to a prolonged armed struggle of the masses against the colonialists (Malaya, the

Philippines). The peoples of Africa (Madagascar, Gold Coast, Kenya, Union of South Africa), more ground down than any by imperialist oppression, have joined the national liberation struggle. Resistance to the imperialists is growing in the Middle East (Persia, Egypt) and in North Africa (Algeria, Tunisia, Morocco). In Latin America the struggle against economic overlordship and political oppression by the finance oligarchy of the United States is growing more intense.

The reactionary attempts of the imperialists, headed by the imperialist circles of the U.S.A., to frustrate the national and social rebirth of the peoples of Asia on anti-imperialist and anti-feudal foundations is inescapably suffering defeat. The failure of American armed intervention in Korea, the collapse of the plans of French and American imperialism in Indochina have vividly demonstrated that the days have passed, never to return, when the imperialists could impose their will by force of arms on the peoples of Asia and put down any endeavour on their part to win freedom and independence.

The break-up of the colonial system of imperialism which has begun is leading to a situation in which the sphere of colonial exploitation is becoming narrower and narrower. This inevitably intensifies the economic and political difficulties of the capitalist countries and shakes the foundations of the imperialist system as a whole.

The Intensification of the Unevenness of Development of Capitalism. The Expansion of American Imperialism

The second world war, which was born of the uneven development of the capitalist countries itself led to a further accentuation of this unevenness. Three imperialist Powers—Germany, Japan and Italy—were defeated in the field. France suffered severe damage and Britain was very seriously weakened. At the same time, the U.S. monopolies, profiting by the war, strengthened their economic and political position in the capitalist world.

In the period between 1929 and 1939, American industry, which possessed considerable reserves of productive capacity, essentially marked time. Enterprises worked a great deal below capacity owing to the narrowness of markets. During the second world war the territory of the U.S.A. was not affected

by military operations, and its economy suffered no military damage. At the same time the market for the American monopolies enormously expanded. The war brought with it a gigantic demand for arms and war materials. Also, the American monopolies were able to seize the former markets of the West European countries and their overseas colonies and spheres of influence. In these circumstances the monopolies of the U.S.A. could rapidly expand the volume of production and carry through on a considerable scale a renewal of the productive apparatus of industry.

American industrial production in 1943 was 2·2 times the level of 1939. In the principal capitalist countries of Western Europe, however, which had suffered severely in the war, industrial production was considerably reduced by the end of the war. As a result, the relative weight of the U.S.A. in the total amount of industrial production of countries of the capitalist camp grew from 41 per cent in 1937 to 56·4 per cent in 1948.

Monopoly circles in the U.S.A., having proclaimed a programme of establishing world domination, undertook extensive economic and political expansion into the capitalist countries and colonies. Taking advantage of the weakening of their competitors, the American monopolies, in their hunt for maximum profits, seized in the first years after the war an important share of the capitalist world market. They resorted on a large scale to State-monopoly forms of the export of capital in order to enslave other countries.

The calculations of the American finance oligarchy about establishing domination of the capitalist world market were, however, not fulfilled. The capitalist countries of Western Europe found themselves at the end of the war having to face great losses. The war had taken heavy toll of the economy of the principal countries of Western Europe, on whose territory military operations had taken place (Germany, France, Italy), or whose territory had been subjected to attacks from the air (Britain). After the end of the war the bourgeoisie of these countries restored the productive apparatus of industry and to a considerable extent renewed it at the expense of intensified exploitation of the working people and lowering of their standard of living. Owing to the narrowness of the internal market these countries began to make their way again into their foreign markets, which during the war years had been seized

by the American monopolies. Soon after the war the United States came into collision in the capitalist world market with increasing competition on the part of the West-European countries, and in the first place of Britain. The fight for markets became still sharper when, five or six years after the end of the war, the monopolies of Western Germany and Japan joined in this fight.

The expansion of American imperialism showed itself first in the guise of "aid for the post-war restoration of Europe". The "Marshall Plan" which operated in 1948–52 had for its aim to make the West-European countries dependent on the American monopolies, draw them into the orbit of aggressive American policy and force the pace of the militarisation of their economies. The "Marshall Plan" paved the way for the North Atlantic Pact—the aggressive alliance formed in 1949 by American imperialism (with the active support of the ruling circles of Britain) for the purpose of establishing its domination over the world. When the period of the Marshall Plan's operation came to an end it was succeeded by a programme alleged to be for "ensuring mutual security", under which American aid is given only for arms drives, only for preparations for another war. By the terms of this programme, American imperialism finally threw off the mask of "restorer" of the economies of the capitalist countries.

During the war American exports were growing markedly at the expense of those of the European countries and especially those of Britain, which fell sharply. In 1945 the share of the U.S.A.'s exports in the total export of the capitalist countries amounted to 40·1 per cent as against 12· 6 per cent in 1937, while that of Britain's exports fell from 9·9 per cent in 1937 to 7·4 per cent in 1945. After the war, however, as a result of the more acute struggle on the world market and the growth of the exports of the European countries, the share of the U.S.A. in the exports of the capitalist countries declined, amounting in 1954 to 19·5 per cent, while Britain's exports in the same year were 10·1 per cent of the total.

The American monopolies are trying by all possible means to push up their exports of goods to the other countries of the capitalist camp, employing to this end both the enslaving terms of the loans which they make to these countries and also barefaced dumping. At the same time the U.S.A. fences off its home market in every possible way from the import of foreign goods, imposing exceptionally high customs duties on these goods. This one-sided nature of American external trade has brought about a chronic dollar gap in other countries, i.e., a shortage of dollars with which to pay for goods imported from the United States.

The economic expansion of the monopolies of the United States leads to the breaking of historically formed, multilateral economic ties between various countries. American imperialism deprives Western Europe of the possibility of obtaining foodstuffs and raw materials from the countries of Eastern Europe, which could supply these goods in exchange for West European industrial products. One of the factors in the aggravation of the difficulties of capitalist economy, since the war, is the circumstance that the imperialists have themselves cut off their access to the world market of the democratic camp, having reduced to almost nothing their trade with the Soviet Union, the Chinese People's Republic and the European People's Democracies.

In the years since the second world war (1946–54) exports from the U.S.A. have amounted, on the average, to 13·5 milliards a year, while U.S. imports have been only 8·2 milliards; the U.S.A. imported 1·3 milliard dollars' worth of goods a year from the countries of Western Europe, on the average, but exported about 4 milliards' worth to these countries. Over the eight years the gap between the U.S.A.'s exports to the countries of Western Europe and its imports from these countries amounted to 21·6 milliard dollars.

The exchange of goods between the U.S.A. and those countries which now form the democratic camp was in 1951 only one-tenth of what it had been in 1937; Britain's trade with them was down to one-sixth, and France's to less than a quarter.

The expansion of the American monopolies deals a painful blow at the interests of the other capitalist countries. The American monopolies, under the pretext of "aid" and through advancing credits to these countries, are striking root in their economies and conquering important positions in the colonies of the West European Powers. Britain and France, for which cheap raw materials and guaranteed markets are of first-class importance, cannot put up indefinitely with the situation which has been created. The conquered countries—Western Germany, Japan, Italy—which are under the yoke of American finance capital, also cannot remain satisfied with their lot.

After the second world war the unevenness of development within the contracted camp of imperialism became still more marked, and this inevitably led to a further *growth of contradictions* among the capitalist countries. The most important of these are *the contradictions between the U.S.A. and Great Britain.* These contradictions show themselves in the open struggle

being waged between the American and British monopolies for markets for their goods, especially in the countries making up the British Empire—Australia, Canada, India, etc.—and for spheres of influence generally—in Western Europe, in the Near and Far East, in Latin America.

The aggressive blocs of imperialist States, scraped together by the United States and directed against the countries of the Socialist camp, cannot eliminate the antagonisms and conflicts between the partners in these blocs, which have as their foundation the struggle to obtain high, monopoly profits in conditions in which the territory under the sway of capital has contracted. Thus, Lenin's proposition that the operation of the law of the uneven development of the capitalist countries in the epoch of imperialism is fraught with conflicts and armed clashes between these countries remains valid in the present period.

The aggressive ruling circles of the imperialist Powers, and of the U.S.A. above all, began immediately after the close of the second world war to carry out a policy of preparing for a third. Hirelings of the monopolies try to mislead the peoples by asserting that the inevitability of war is due to the existence in the world today of two opposed systems—capitalism and socialism. The facts of history refute this fabrication. The first world war was caused by the sharpening of imperialist contradictions in a world in which the capitalist system still held undivided sway. The second world war began as a war between two coalitions of capitalist countries. In the period since the second world war the countries of the socialist camp are firmly and consistently upholding the cause of preserving and strengthening peace between the peoples, taking as their starting-point that the capitalist and socialist systems are perfectly able to co-exist in peace, emulating each other economically. The policy of the Soviet Union and the People's Democracies, which is directed towards the development of peaceful co-operation between States regardless of their social structure, enjoys the support of the working masses and the sympathy of champions of peace throughout the world.

The peace movement unites hundreds of millions of people in all countries, including many millions in the capitalist countries. People belonging to a variety of social groups and holding different political and religious views have come together on the common ground of the defence of peace and of the security of

the peoples. The plans for another world war which aggressive imperialist circles are maturing will be doomed to frustration if the peoples take the cause of peace into their hands and defend it to the end. "The democratic forces of the world are now strong enough to prevent war, if only they will act in unity and make impotent the capitalist war profiteers and would-be world conquerors." (William Z. Foster, *Outline Political History of the Americas*, 1953, p. 590.)

The Militarisation of the Economy of the Capitalist Countries. Changes in the Capitalist Cycle

In conditions of the break-up of the single world market and contraction of the sphere of exploitation of the world's resources by the chief capitalist countries, the dominant monopolies are resorting more and more to militarisation of the economy as a means of bringing about a growth of production and securing very high profits. In the State Budgets the relative share taken by expenditure arising directly or indirectly from the arms drive is continually rising. The increase in the State Budgets, absorbing an ever larger slice of the national income, is accompanied by an increase in the gap between receipts and expenditure, a growth in the public debt, and the clogging of the channels of monetary circulation with paper money, the purchasing power of which is falling. Militarisation of the economy inevitably leads to still greater sharpening of the insoluble contradictions of capitalist economy.

According to official, certainly underestimated figures, the profits of the American monopolies grew from 3·3 milliard dollars in 1938 to 34·8 milliard dollars in 1954, i.e., they were multiplied by ten. During the nine years immediately following the war, the profits of American monopolies amounted to 304 milliard dollars. In Britain the profits of joint-stock companies amounted in 1953 to £3,500,000,000, as against £1,000,000,000 in 1938.

In the post-war years (1946–54) the total war expenditure of the U.S.A., including expenditure on arming the States-members of the North Atlantic alliance (N.A.T.O.) and on producing atomic bombs, exceeded 258 milliard dollars. Direct military expenditure in the U.S.A. during the last three years (1952–4) came to 47 milliard dollars per year, or over two-thirds of the entire Budget, as compared with 953 million dollars, or 12 per cent of the entire Budget, in the three years before the second world war. In Britain military expenditure has grown correspondingly, from £173 million to £1,429

million, and from 18 per cent to one-third of the total Budget. In France, war expenditure has during the last three years amounted on the average to a third of the total Budget.

The purchasing power of the U.S. dollar was in 1954 only 34·6 per cent of what it had been in 1939, that of the British pound sterling was 31·2 per cent, that of the French franc 2·8 per cent and that of the Italian lira 1·8 per cent.

The militarisation of the economy of the capitalist countries furnishes one of the most vivid demonstrations of the increasing parasitism and decay of capitalism.

Even at the time of the first world war, Lenin, noting the rapid economic development of the U.S.A., stressed that, "*for this very reason*, the parasitic features of modern American capitalism have stood out with particular prominence." (Lenin, "Imperialism", *Selected Works*, 1950 edition, vol. 1, Pt. 2; p. 565.) In the period since the second world war, these parasitic features of American capitalism have intensified still further. This is especially graphically shown in the growth of the State's unproductive expenditure, caused by the arms drive and the all-round militarisation of the national economy.

The parasitism and decay of capitalism does not mean in the least that technical progress ceases and complete stagnation of technique sets in. The characteristic tendency of monopoly to technical stagnation operates alongside an opposite tendency, for technique to advance under the influence of competition and the hunt for high monopoly profits. The arms drive brings about an advance of technique in the branches concerned with armaments production and the sections of heavy industry connected therewith. As a result technique does not stand still in the capitalist countries but goes forward. But the decay of capitalism shows itself in the fact that technical progress takes place extremely unevenly and lags considerably behind the vast possibilities opened up by the present level of development of science and technique.

The economic essence of militarisation of the economy consists in the fact that, first, an ever-greater share of the finished products and raw materials is absorbed by unproductive consumption connected with war preparations or locked up in the form of huge strategic stocks; second, the expansion of war production is carried out at the cost of a further lowering of workers' wages, ruin of the peasantry, increase in the tax burden

and plundering of the peoples of the colonial and dependent countries. All this substantially reduces the purchasing power of the population, cuts down the demand for the products of industry and agriculture, and leads to a sharp contraction in civilian production. Thus, the militarisation of the economy of the capitalist countries, aggravating the disproportion between the production potentialities and the reduced effective demand of the population, leads inevitably to the growth of the prerequisites of a crisis of overproduction.

In connection with the aggravation of the general crisis of the world capitalist system, further changes take place in the capitalist cycle. These changes ensue from the break-up of the uniform world market and the intensification of the uneven development of the capitalist countries. They are connected with the inevitable consequences of the second world war and the militarisation of the economy. War-inflation factors, i.e., the militarisation of the economy and the inflation which accompanies it, temporarily hold back the outbreak of crisis but cannot eliminate or restrict the operation of the general laws of capitalist reproduction which make crises unavoidable.

Since the U.S.A. on the one hand, and the main West European countries on the other, came out of the war having suffered quite different economic effects from it, the course of the capitalist cycle could not be the same through the capitalist world. After the second world war ended, the volume of industrial production in the U.S.A., which had been inflated by war demand, fell sharply, so that in 1946 it was 29 per cent less than in 1943. Later, in 1948–9, an economic crisis occurred. It is significant that, on the eve of the crisis, in 1948, American industry had not yet attained the highest peak of production during the war period, the level of 1943. The crisis of 1948–9 affected to some extent also a number of countries of Western Europe. From October 1948 to October 1949 the volume of American industrial production fell by 10 per cent. Industrial production in the U.S.A. in 1949 amounted to only 35 per cent of what it had been at the highest point in 1943 (engineering only 50 per cent). This shrinking of production was accompanied by crisis phenomena in the fields of commodity circulation, credit and foreign trade. These included the piling up of vast stocks of unrealisable commodities and the decline in commercial transactions, a sharp falling-off in

railway freights, some stock exchange failures, a fall in the value of shares amounting to milliards of dollars, an increase in the number of bankruptcies, and a reduction in the volume of America's exports.

The war inflicted considerable damage upon the economies of the principal capitalist countries of Western Europe and the restoration of this damage held back for a definite period the growth of the prerequisites for an overproduction crisis, so that the post-war years saw an increase in industrial production in these countries. The crisis of 1948–9 in the U.S.A. did not lead to a general falling-off of production in Western Europe and, consequently, did not develop into a world economic crisis.

The rapid increase of war expenditure in the United States and other capitalist countries, especially after the outbreak of the war in Korea in 1950, served as a temporary stimulus to the expansion of production, and first and foremost to the production of armaments and other war material. However, the one-sided character of this recovery made it unstable and short-lived. A fresh falling-off of production, signifying a crisis, began as early as the middle of 1953. Within less than a year —from August 1953 to April 1954—the volume of industrial production in the U.S.A. declined by 10 per cent. The shrinkage of production led to the doubling of the number of completely unemployed, to a wave of bankruptcies and the swallowing up of many smaller firms by the big monopolies. Between April and November 1954 industrial production remained at the same level, and only in November 1954 did it begin slowly to mount.

Thus, the course of reproduction in the second stage of the general crisis of capitalism is marked by sharply-increasing unevenness of development as between different countries, which brings special instability to the entire economic system of capitalism. The prerequisites for a world economic crisis continue to accumulate in all the capitalist countries.

Intensified Impoverishment of the Working Class in the Capitalist Countries

The aggravation of the general crisis of capitalism which took place after the second world war led to a further impoverishment of the proletariat. Seeking maximum profits, the monopolies

are increasing the exploitation of the working people. Monopoly capital is transferring on to the backs of the working people the ruinous consequences of the war and of militarisation of the economy.

The monopolies supported by the reactionary trade union leaders seek to lower the workers' real wages through "freezing" nominal wages, i.e., preventing them from rising in conditions in which inflation prevails and the burden of taxation is growing. Inflation produces an increase in the cost of living and a rapid rise in the prices of consumer goods, a widening of the gap between nominal and real wages. External expansion and the militarisation of the economy of the capitalist countries take place at the price of a burden of taxation which weighs upon the working people. One of the factors in the reduction of the standard of living of the working class is the rapid rise in rents. The decline in real wages leads to a worsening of the nutrition of the working population.

The position of the working intelligentsia in the capitalist countries is deteriorating; unemployment is increasing amongst them, and their incomes are falling as a result of the rise in the cost of living, the growth of taxation, and inflation.

Real wages in the U.S.A. and Britain and especially in France and Italy have markedly declined as compared with pre-war. Thus, for example, in France the purchasing power of the average hourly wages was in 1955 about half what it had been before the war.

Along with the sharp fall in the purchasing power of money the cost of living grew considerably in the capitalist countries in relation to the pre-war figures. In 1954 in the U.S.A. it was 2·9 times pre-war, in France more than 30 times and in Italy more than 60 times.

In 1952, in spite of the increase in war production, there were reckoned to be in the U.S.A. not less than 3 million wholly unemployed and 10 million partly, and in Western Germany nearly 3 million wholly and partly unemployed. Italy had more than 2 million wholly unemployed and an even larger number partly unemployed. In Japan there were about 10 million wholly and partly unemployed. In the U.S.A. at the beginning of 1954 the number of wholly unemployed reached 3·7 millions, and that of partly unemployed 13·4 millions.

In the U.S.A. direct taxes in the 1953–4 budget year were nearly twelve times as great as in the 1937–8 budget year, even if the fall in the purchasing power of money be taken into account. In the Western European countries, where, too, the tax-burden was very heavy even before the war, taxes likewise grew in this period; in

Britain they were doubled, in France multiplied by 2·5 and in Italy one and a half times. At the beginning of 1955 the rent paid by a U.S. worker's family was more than double what it had been in 1939.

According to figures issued by the Bureau of the Census, in 1949 in the U.S.A. 72·2 per cent of all American families had incomes below the extremely meagre official subsistence minimum; 34·3 per cent had incomes which were less than half of this minimum, 18·5 per cent less than a quarter, and 9·4 per cent less than an eighth.

The worsening of the material situation of wide sections of the population of the capitalist countries leads to a growth of unrest and discontent among the masses, who react more and more actively against the oppression of monopoly capital. This is expressed in an upsurge of the strike movement in the capitalist countries, in a strengthening of the progressive trade unions which are united in the World Federation of Trade Unions set up in 1945, in the growth of the Communist Parties and extension of their mass influence, in the strengthening of the political activity of the working class. The Communist Parties and progressive trade unions, firmly rebuffing the splitting activity of the right-wing Socialists and reactionary trade union leaders, are educating the working class in the spirit of proletarian solidarity, in the spirit of struggle for liberation from imperialist oppression.

Intensified Oppression by the Monopolies in the Agriculture of the Capitalist Countries, and Impoverishment of the Peasantry

The aggravation of the general crisis of capitalism after the second world war is marked by enhanced domination by the monopolies and finance-capital in agriculture, the growth of differentiation among the peasantry and of impoverishment of the bulk of them.

Finance capital takes possession of agriculture ever more widely and deeply. The mortgage banks, which advance credit on the security of land, become the *de facto* owners of the holdings of the ruined peasantry, together with their implements and other chattels. The short-time credit banks and insurance companies entangle the peasants in a net of indebtedness.

The monopolies make money for themselves out of the products of agriculture at every stage of their passage from the

producer to the consumer. By fixing low prices for the produce which they buy from the small peasants and screwing up retail prices to a high level, the monopolies appropriate a substantial part of the peasants' incomes. Huge profits are received at the expense of the bulk of the peasants by the monopolies engaged in the processing of agricultural produce (in the flour-milling, meat, tinned food and sugar industries). The measures taken by the State—tax policy, wholesale buying operations and other forms of so-called "aid" to agriculture—result in ever greater enrichment of the monopolies and impoverishment of the bulk of the peasantry. The exploitation of the peasants by the monopolies is combined with very numerous survivals of the serf-owning type of exploitation and above all with share-cropping, under which the tenant is obliged to hand over to the landowner a considerable share of his crop as rent for land and implements.

In the U.S.A. the proportion of the total land occupied by large and very large farms, over 500 acres in extent (which amounted in 1950 to less than 6 per cent of all the farms), grew from 44·9 per cent in 1940 to 53·5 per cent in 1950, while the share occupied by latifundia with an extent greater than 1,000 acres grew from 34·3 per cent to 42·6 per cent. According to the data of the 1950 census, 44 per cent of all the farms (in value of marketable produce accounting for less than 1,200 dollars each) produced less than 5 per cent of all the marketable produce, i.e., they were primitive, poorly-productive, subsistence farms, while 103,000 large farms (25,000 dollars' worth, or more, of marketable produce each), which made up only 2 per cent of the total, contributed 26 per cent of the marketable produce of U.S. agriculture. In France in 1950 small farms, twenty-five acres or less in extent, which made up 56·7 per cent of all the farms, comprised only 16·1 per cent of all the agricultural land, while large farms, numbering 4·4 per cent of the total, made up 29·9 per cent of it. In Western Germany small farms with an area not exceeding 12·5 acres, which in 1949 made up 55·8 per cent of all the farms, had only 11 per cent of all the land, while 0·7 per cent of the large farms accounted for 27·7 per cent of it. In Italy there are 2·5 million landless peasants and 1·7 million who have little land. During the decade 1940 to 1950 over 700,000 farm households were ruined.

The total amount of ground-rent in the U.S.A. grew from 760 million dollars in 1937 to 2·1 milliard dollars in 1952. In Italy a few hundred landlords drew every year 450 milliard lire in ground-rent, whereas the wages of 2·5 million agricultural labourers amounted only to 250 milliard lire. The total indebtedness of American farmers to the banks and other credit institutions more

than doubled in 1946–54, reaching the figure of 18 milliard dollars by January 1, 1955. The property tax on the farm population was in 1953 2·3 times as high as in 1942.

Since the second world war the increase in the impoverishment of the working class and the peasantry in the capitalist countries and the vast expenditures which these countries are making on armaments have brought about a decline in effective demand and in the market for agricultural produce. In connection with this, stocks and "surpluses" of agricultural goods for which no outlet can be found are increasing in the capitalist countries, cultivated areas are shrinking, the earnings of the bulk of the peasantry from the sale of their produce are sharply declining, a mass-scale ruination of petty producers is taking place, and a vast quantity of foodstuffs is being destroyed—at the same time as the consumption of foodstuffs by the working masses is falling and they are actually going without essential food. All this is preparing the way for the onset of a fresh agrarian crisis.

Transient stocks of wheat in the U.S.A. in 1954 were 2·4 times the highest level of stocks during the crisis of 1929–33 and were more than 7 times as great as the average annual stocks of 1946–8. In order to keep prices of foodstuffs at their inflated level, State agencies in the U.S.A. buy up huge quantities of grain, cotton, potatoes and livestock products and systematically destroy part of these stocks.

In 1954 the net income of U.S.A. farmers was 4·6 milliard dollars, or 36 per cent less than their average annual income in 1946–8.

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The further aggravation of the general crisis of capitalism since the second world war is marked by a sharpening of the antagonisms of capitalist society. The contradiction between society's productive forces and the capitalist relations of production, which has reached its farthest limits, shows graphically that history has doomed the bourgeois system, which has outlived itself.

The second stage of the general crisis of capitalism has brought with it an aggravation of the crisis of bourgeois democracy. The anti-popular and anti-national character of bourgeois rule is showing itself with increasing frankness. The

reactionary circles of the bourgeoisie are seeking their way out from the general crisis of capitalism by the path of war and the fascisation of political life.

The masses of the people in the capitalist countries, marching under the banner of proletarian internationalism, are seeking their way out of the situation through active and resolute struggle against the entire system of imperialist slavery and for national and social liberation.

> "Proletarian, socialist internationalism is the basis of the solidarity of the working people and of co-operation between the peoples in the cause of defending their independence from the attempts made upon it by imperialism, in the defence of peace. It teaches the workers to unite their forces in every country in order to fight against the rule of capital, to bring about a transition to socialist economy. It teaches the working class and the peoples to develop mutual links of international solidarity, in order the better to carry forward the fight for peace, to isolate and render harmless those who are fomenting another war." (P. Togliatti, "The Unity of the Working Class and the Tasks of the Communist and Workers' Parties", *For a Lasting Peace, for People's Democracy*, December 2, 1949.)

After the first world war Russia broke away from the capitalist system; after the second world war a whole series of countries in Europe and Asia broke away; and a third world war, should the imperialists manage to start one, would inevitably result in the downfall of the entire world capitalist system. In such a war the imperialist aggressors would not only clash with the invincible might of the States of the socialist camp. They would find themselves confronted with an explosion of all the sharpest contradictions inherent in present-day capitalism—between labour and capital, between the imperialist Powers, between the metropolitan countries and the colonies.

The progressive, democratic forces of the peoples, headed by the working class and its vanguard, the Communist Parties, are uniting in active opposition to imperialist reaction, the fascist danger and the plans for fresh wars. The peace-loving policy of the Soviet Union, the Chinese People's Republic and the other countries of the socialist camp, directed towards the easing of international tension, has led to the ending of the

war in Korea, the restoration of peace in Indochina and the conclusion of the State treaty with Austria. At the Geneva meeting of the heads of government of the four Powers—the Soviet Union, the U.S.A., Britain and France—held in June 1955, definite successes were achieved in the direction of improving the international situation and establishing co-operation between States with different economic and social systems. The camp of peace, democracy and socialism, headed by the Soviet Union and the Chinese People's Republic, unites the 900 million inhabitants of the countries which have broken away from the capitalist system. This camp constitutes a powerful force which exercises a decisive influence on the entire course of current history.

BRIEF CONCLUSIONS

(1) In the period of the second world war, especially after the falling away from the capitalist system of the People's Democracies of Europe and Asia, the general crisis of capitalism developed to its second stage. As a result of the formation of two opposing camps in the international arena, a split took place in the single, all-embracing world market and two parallel markets were formed: the market of the countries of the socialist camp and the market of the countries of the capitalist camp. The sphere of access by the forces of the chief capitalist countries—U.S.A., Britain, France—to the world's resources was notably reduced.

(2) One of the principal results of the second world war has been the sharp aggravation of the crisis of the colonial system of imperialism. An upsurge of the national liberation struggle in the colonial and dependent countries has led to the beginning of the break-up of the colonial system, to the breaking away of China and a number of other countries from the world system of imperialism.

(3) The further intensification of the unevenness of the development of the capitalist countries inevitably produces an aggravation of the internal contradictions in the camp of imperialism. The militarisation of the economy causes the gap to widen between the production potentialities of industry in the capitalist countries and the possibilities for disposing of

their goods, and by so doing prepares the way for the onset of a fresh economic crisis.

(4) The second stage of the general crisis of capitalism is marked by a further deterioration in the material position of the broad masses of the working people. This is expressed in the decline in the real wages of the working class, the increase in the permanent army of unemployed, the extensive introduction of sweating systems, inflation and rise in the cost of living, increase in the burden of taxation, the worsening of the position of the bulk of the peasantry in the capitalist countries and intensified exploitation of the colonies. The strengthening of the camp of peace, democracy and socialism, the weakening of the imperialist camp of reaction and war, the upsurge in the struggle of the working class, the peasantry and the colonial peoples for freedom testify that the present epoch is the historic epoch of the downfall of capitalism, of the victory of communism.

ECONOMIC DOCTRINES OF THE CAPITALIST EPOCH

With the development of capitalism and the growth of its contradictions various trends of economic thought were formed and developed, expressing the interests of different classes.

Bourgeois Classical Political Economy

In the struggle against feudalism and for the establishment of the capitalist order the bourgeoisie created its own political economy, which discredited the economic views of the ideologues of feudalism and for a certain period played a progressive role.

The capitalist mode of production was established first of all in Britain. Here also was born bourgeois classical political economy whose representatives tried to discover the internal connections between economic phenomena. Already the founder of bourgeois classical political economy, WILLIAM PETTY (1623–87), who was active in the period when mercantilism was breaking down, essentially defined the value of commodities by the comparative amount of labour contained in them, though much inconsistency was shown regarding this question.

An important role in the formation of bourgeois political economy was played by the *physiocrats*. This trend was headed by FRANÇOIS QUESNAY (1694–1774). The physiocrats arose in France in the second half of the eighteenth century, in the period when the bourgeois revolution was being prepared in the world of ideas. Like the French philosophers of the Enlightenment in the same period, the physiocrats laid it down that natural laws of human society exist, established by Nature. France was at that time an agricultural country. In contrast to the mercantilists, who saw wealth only in money, the physiocrats declared the sole source of wealth to be Nature, and consequently agriculture, which supplies man with the fruits of Nature. Hence also the name of the school—"physiocrats", formed from two Greek words meaning "Nature" and "rule".

The central place in the physiocrats' theory was occupied by

the doctrine of the *produit net*. This was what the physiocrats called the entire surplus of production over and above the expenditure incurred in production—that part of the production in which, under capitalism, the surplus-value finds embodiment. The physiocrats understood wealth as a definite mass of products in their real, material form, as a definite mass of use-values. They declared that the *produit net*, as a "gift of nature", arises exclusively on the basis of the use of wage-labour in agriculture and stock-breeding, i.e., in those branches of production where the natural processes of growth of plants and animals take place, while all other branches merely change the form of the products supplied by agriculture.

The most noteworthy work of the physiocratic school was Quesnay's *Tableau économique*. The service rendered by Quesnay consisted in the fact that he made a remarkable attempt to depict the process of capitalist reproduction as a whole, even though he could not furnish a scientific theory of reproduction.

Proceeding from the idea that the *produit net* is created only in agriculture, the physiocrats demanded that all taxes be imposed on landowners, while manufacturers should be freed from tax burdens. This demand of the physiocrats showed clearly their class character as ideologues of the bourgeoisie. The physiocrats were supporters of the unlimited domination of private property. Affirming that only free competition corresponds to the natural laws of economy and to human nature, they counterposed to the policy of protectionism the policy of *free trade*, and fought resolutely against guild restrictions and against social interference by the State in the country's economic life.

Bourgeois classical political economy attained the peak of its development in the works of A. Smith and D. Ricardo.

ADAM SMITH (1723–90) took a notable step forward, compared with the physiocrats, in the scientific analysis of the capitalist mode of production. His fundamental work was *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). In Smith's opinion, a country's wealth consists in the entire mass of commodities produced in it. He rejected the one-sided and therefore incorrect conception of the physiocrats that the *produit net* is created only by agricultural labour, and was the first to proclaim as the source of value *all labour*, in no matter which branch of production it might be expended. Smith was

an economist of the period of manufacture in the development of capitalism, and for this reason he saw the basis of the increase in the productivity of labour in the division of labour.

Characteristic of Smith was the interweaving of two different approaches to economic phenomena. On the one hand, Smith inquired into the internal connections of phenomena, trying to penetrate with his analysis into the hidden structure or, to use Marx's expression, the physiology of the bourgeois economic system. On the other hand, Smith gave a description of phenomena in the form in which they made their appearance on the surface of capitalist society and, consequently, as they seemed to the practical capitalist. The first of these ways of understanding reality is scientific, the second is unscientific.

Investigating the internal connections of the phenomena of capitalism, Smith defined the value of a commodity by the amount of labour expended on producing it; in so doing he looked upon the wages of the wage-worker as part of the product of his labour, determined by the value of his means of livelihood, and profit and rent as deductions from the product created by the worker's labour. However, Smith did not maintain this point of view consistently. Smith continually confused the determination of the value of commodities by the labour included in them with the determination of the value of commodities by "the value of labour". He asserted that the determination of value by labour belongs only to the "primitive state of society", by which he meant the simple commodity production of petty producers. Under capitalist conditions the value of a commodity is *made up of* incomes: wages, profit and rent. An assertion such as this reflected the misleading appearance assumed by phenomena in capitalist economy. Smith considered that the value of the social product as a whole also consisted only of incomes—wages, profit and rent; i.e., he made the mistake of leaving out the value of the constant capital which is used up in producing a commodity. This "Smith dogma" made it quite impossible to understand the process of social reproduction.

Smith was the first to describe the class structure of capitalist society. He showed that it is divided into three classes: (1) workers, (2) capitalists and (3) landowners. But Smith was limited by his bourgeois world-outlook and his views reflected the undeveloped class struggle of the epoch: he claimed that in a

capitalist society a community of interests prevails, inasmuch as each pursues his own advantage, and from the clash between all these separate strivings the common benefit arises. Resolutely combating both the theoretical views and the policies of the mercantilists, Smith warmly supported *free competition.*

In the works of DAVID RICARDO (1772–1823) bourgeois classical political economy reached its perfection. Ricardo lived in the period of the industrial revolution in Britain. His principal work, *On the Principles of Political Economy and Taxation,* came out in 1817.

Ricardo worked out the labour theory of value with the maximum consistency possible within the framework of a bourgeois outlook. Rejecting Smith's thesis that value is determined by labour only in "the primitive state of society", he showed that the value created by the workers' labour is the *source* from which arise wages, rent and profit alike.

Proceeding from the idea that value is determined by labour, Ricardo showed the antagonism of class interests in bourgeois society, as it manifests itself in the sphere of distribution. Ricardo regarded the existence of classes as an eternal feature of the life of society. In Marx's words, Ricardo "consciously makes the antagonism of class interests, of wages and profits, of profits and rent, the starting-point of his investigations, naïvely taking this antagonism for a law of nature". (Marx, *Capital,* Kerr edition, vol. I, pp. 17–18.) Ricardo formulated an important economic law: the higher the worker's wages the lower the capitalist's profit, and vice versa. Ricardo also showed the antagonism between profit and rent; but he went wrong in acknowledging the existence only of differential rent, which he linked with the imaginary "law of diminishing returns from the soil".

Ricardo played a great role in the development of political economy. His doctrine that value is determined by labour alone was of outstanding historical importance. Observing the growth of capitalist contradictions, some of his followers began to draw the conclusion: since value is created by labour alone, it is necessary and just that the worker, creator of all wealth, should also be the master of all wealth, of all the products of labour. A demand like this was put forward in Britain in the first half of the nineteenth century by the early Socialists, who were followers of Ricardo.

At the same time, Ricardo's doctrines contained elements of bourgeois limitedness. The capitalist system with its antagonistic class interests seemed to Ricardo, as to Smith, a natural and eternal system. Ricardo did not even raise the question of the historical origin of such economic categories as the commodity, money, capital, profit, etc. He understood capital unhistorically, identifying it with means of production.

The Rise of Vulgar Political Economy

With the development of capitalism and the sharpening of the class struggle, classical bourgeois political economy gave place to vulgar political economy. Marx called it vulgar because its spokesmen substituted for the scientific cognition of economic phenomena mere description of the outward appearance of these phenomena, having as their aim the embellishment of capitalism and the slurring-over of its contradictions. The vulgar economists threw out everything that was scientific, while snatching at everything that was unscientific in the views of earlier economists (especially A. Smith)—everything which had been determined by the class limitations of their outlook.

> "It was thenceforth no longer a question whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested inquiries there were hired prizefighters; in place of genuine scientific research, the bad conscience and the evil intent of apologetic." (Marx, *Capital*, Kerr edition, vol. I, p. 19.)

In the sphere of the theory of value, vulgar economy put forward, in opposition to the determination of value by labour time, a number of propositions which had already been refuted by the bourgeois classical school. Amongst these were: the theory of supply and demand, which ignores the value underlying prices and for the explanation of the very basis of prices substitutes a description of the fluctuations of these prices; the theory of costs of production, which explains the prices of some commodities by means of the prices of others, i.e., in fact turns round in a vicious circle; the theory of utility, which, trying to explain the value of commodities from their use-value,

ignores the fact that the use-values of different commodities are qualitatively different and therefore cannot be compared quantitatively.

The English vulgar economist T. R. MALTHUS (1766–1834) put forward the fabrication that the poverty of the masses of the working people which is inherent in capitalism is due to the fact that people multiply faster than the amount of means of life provided by nature can be increased. According to Malthus, the necessary correspondence between the numbers of the population and the quantity of means of life supplied by Nature is brought about through famine, poverty, epidemics and wars. Malthus's man-hating theory was formed for the purpose of justifying the social order under which the parasitism and luxury of the exploiting classes exist side by side with the exhausting labour and increasing want of the broad masses of the working people.

The French vulgar economist J. B. SAY (1767–1832) declared the source of value to be the "three factors of production"—labour, capital and land, and drew the conclusion therefrom that the owners of each of these three factors of production receive the incomes "due" to them: the worker his wages, the capitalist his profit (or interest), the landowner his rent. The "three factors" theory, which became widespread in bourgeois political economy, had the function of concealing the decisive circumstance that it is only in certain social conditions that labour is transformed into wage-labour, that the means of production become capital, and that property in land becomes a source of rent. Capital and land provide revenue for their owners, of course, only by virtue of the fact that the worker creates surplus-value by his unpaid labour, and this is the real source of all unearned incomes in capital society. Affirming that under capitalism there is no contradiction between production and consumption, Say denied that general crises of overproduction were possible. Say's theory was a crude distortion of reality to please the exploiting classes. Fantasies about the harmony of class interests under capitalism were zealously propagated by the French economist F. BASTIAT (1801–50) and the American CH. CAREY (1793–1879). Under the pretext of defending bourgeois "freedom of labour", vulgar political economy carried on a fierce struggle against trade unions, collective agreements and strikes. From the

second quarter of the nineteenth century onward, vulgar political economy became predominant in bourgeois economic science.

Petty-bourgeois Political Economy

At the beginning of the nineteenth century there arose a petty-bourgeois trend in political economy, which reflected the contradictory position of the petty-bourgeoisie as the intermediate class of capitalist society. Petty-bourgeois political economy begins with the Swiss economist S. SISMONDI (1773–1842). Unlike Smith and Ricardo, who regarded the capitalist system as the natural state of society, Sismondi undertook a critique of capitalism, which he condemned from the standpoint of the petty-bourgeoisie. Sismondi idealised the petty commodity production of peasants and handicraftsmen and, failing to see the inevitable growth of the capitalist relations inherent in petty commodity production, put forward utopian projects for perpetuating small property. From the fact that the incomes of the workers and petty producers decline Sismondi drew the erroneous conclusion that the market inevitably shrinks as capitalism develops. He wrongly claimed that accumulation of capital was possible only given the existence of petty producers and foreign markets.

The ideas of petty-bourgeois political economy were developed in France by P. J. PROUDHON (1809–1865). He upheld the reactionary idea that all the social evils of capitalism could be eliminated by setting up a special bank, which would carry out the exchange of goods between petty producers without using money and would grant free credit to the workers. Proudhon sowed reformist illusions among the working-class masses and deflected them from the class struggle.

In Russia at the end of the nineteenth century the reactionary ideas of petty-bourgeois political economy were propagated by the liberal Narodniks.

The Utopian Socialists

With the rise and development of large-scale machine industry at the end of the eighteenth and beginning of the nineteenth centuries the contradictions of capitalism and the miseries which it brings to the working masses became

increasingly apparent. But the working class was still not conscious of its historical role as capitalism's grave-digger. It was in this period that the great Utopian Socialists emerged: HENRI SAINT-SIMON (1760–1825) and CHARLES FOURIER (1772–1837) in France and ROBERT OWEN (1771–1858) in Britain, who played a big part in the history of the development of socialist ideas.

In their explanation of economic phenomena the Utopian Socialists did not depart from the basis of the eighteenth century philosophers of the Enlightenment, which had been that of the spokesmen of bourgeois classical political economy. But whereas the latter regarded the capitalist system as corresponding to human nature, the Utopian Socialists looked upon it as contradicting human nature.

The historical importance of the Utopian Socialists is that they subjected bourgeois society to vigorous criticism, ruthlessly castigating such ulcers upon it as the poverty and privations of the mass of the people condemned to heavy and exhausting labour, the venality and degeneration of the rich upper strata of society, the vast squandering of productive forces as a result of competition, crises and so on. They made a number of guesses about the nature of the socialist system, which they counterposed to capitalism. But the Utopian Socialists were far from understanding the actual ways leading to the realisation of socialism. Being ignorant of the laws of social development, the laws of the class struggle, they thought that the possessing classes themselves would introduce socialism when they had succeeded in convincing them of the reasonableness, justice and expediency of this new system. Understanding of the historical role of the proletariat was completely alien to the Utopian Socialists. Utopian Socialism

> "could not explain the essence of wage-slavery under capitalism, nor discover the laws of the latter's development, nor point to the *social force* which is capable of becoming the creator of a new society". (Lenin, "The Three Sources and Three Component Parts of Marxism", *Selected Works*, 1950 edition, vol. I, Pt. I, p. 80.)

The Revolutionary Democrats in Russia

In the middle of the nineteenth century there appeared in Russia, which was then in the throes of the crisis of serfdom,

a brilliant constellation of thinkers who made a great contribution to the development of economic science.

A. I. HERZEN (1812–70) denounced Tsarism and serfdom in Russia and summoned the people to revolutionary struggle against it. He also sharply criticised the capitalist system of exploitation which had been established in the West. Herzen was the initiator of Utopian "peasant Socialism". He saw "socialism" in the emancipation of the peasants with land, in communal ownership of land and in the peasant idea of "the right to the land". There was actually nothing socialist in these views of Herzen's, but they expressed the revolutionary strivings of Russia's peasantry, who were fighting to overthrow the rule of the landlords and to abolish landlord ownership of land.

Very great services to the development of economic science were rendered by the great Russian revolutionary and scholar N. G. CHERNYSHEVSKY (1828–89). Chernyshevsky headed the struggle of the revolutionary democrats against serfdom and Tsarist autocracy in Russia. He produced a brilliant critique not only of serfdom but also of the capitalist system, which had become consolidated by then in Western Europe and North America. Chernyshevsky thoroughly exposed the class nature and limitedness of bourgeois classical political economy and subjected to annihilating criticism the vulgar economists, John Stuart Mill, Say, Malthus and others. In Marx's estimation, N. G. Chernyshevsky elucidated the bankruptcy of bourgeois political economy in masterly fashion.

To bourgeois political economy, which serves the mercenary interest of the capitalists, Chernyshevsky counterposed "the political economy of the working people", the central place in which should be taken by labour and the interests of the working people. Being a representative of Utopian "peasant socialism", Chernyshevsky did not see, owing to the undeveloped state of capitalist relations in the Russia of his day, that the development of capitalism and of the proletariat creates the material conditions and the social force for the realisation of socialism. But in his understanding of the nature of capitalist society and its class structure, the character of its economic development, Chernyshevsky went much further than the West-European Utopian Socialists and took a long stride along the path to scientific socialism. Unlike the Utopian Socialists of

the West, Chernyshevsky ascribed decisive significance to the revolutionary activity of the working masses, their fight for their own liberation, and called for a people's revolution against the exploiters. Chernyshevsky was a consistent, militant revolutionary democrat. Lenin wrote that the spirit of the class struggle breathes from the pages of his works.

The economic teaching of Chernyshevsky was the culmination of the whole development of political economy before Marx. In his philosophical views, Chernyshevsky was a militant materialist. Like Herzen, he came close to dialectical materialism.

The revolutionary democrats Herzen, Chernyshevsky and those who shared their views were the forerunners of Russian Social-Democracy.

The Revolutionary Transformation in Political Economy effected by K. Marx and F. Engels

By the middle of the nineteenth century the capitalist system of economy had become predominant in the principal countries of Western Europe and in the U.S.A. The proletariat had taken shape and had begun to advance to battle against the bourgeoisie. The conditions had arisen for the formation of an advanced proletarian world outlook—*Scientific Socialism*.

KARL MARX (1818–83) and FRIEDRICH ENGELS (1820–95) transformed socialism from utopia into science. The teachings elaborated by Marx and Engels express the fundamental interests of the working class and are the battle-flag of the proletarian masses for the revolutionary overthrow of capitalism and the triumph of socialism.

Marx's teaching "arose as the direct immediate *continuation* of the teaching of the greatest representatives of philosophy, political economy and socialism." (Lenin, "The Three Sources and Three Component Parts of Marxism", *Selected Works*, 1950 edition, vol. I, Pt. I, p. 75.)

Marx's genius consists, as Lenin showed, precisely in his having given the answers to questions which the advanced thinkers of mankind had already asked. His teaching is the rightful heir of the best that had been created by man's thought in the field of the science of human society. At the same time the rise of Marxism was a *fundamental revolutionary transformation* in

philosophy, in political economy and in all the social sciences. Marx and Engels equipped the working class with an integrated and systematic world-outlook—*dialectical materialism*, which is the theoretical foundation of scientific communism. Extending dialectical materialism to the field of social phenomena, they created *historical materialism*, which is the greatest triumph of scientific thought. To the non-historical approach to human society, they counterposed the historical approach, based on a profound study of the actual course of development. The previously dominant notion of society as unchanging and static they replaced by a systematic teaching which laid bare the objective laws of social development—the laws of the replacement of some forms of society by others.

Marx and Engels were the founders of genuinely scientific political economy. In applying the method of dialectical materialism to the investigation of economic relations, Marx effected a thorough-going revolution in political economy. Approaching political economy as the ideologist of the working class, Marx conclusively exposed the contradictions of capitalism and created *proletarian political economy*. Marx formed his economic doctrine in the course of irreconcilable struggle against bourgeois apologists for capitalism and petty-bourgeois criticism of it. While utilising and developing a number of propositions of the classical bourgeois economists, Smith and Ricardo, Marx resolutely overcame the anti-scientific views and contradictions which were contained in their teachings. In his economic teaching Marx summed up and generalised an enormous amount of material on the history of human society and especially on the history of the rise and development of capitalism. To Marx is due the discovery of the historically transient character of the capitalist mode of production and the investigation of the laws of the rise, development and fall of capitalism. On the basis of a profound economic analysis of the capitalist system Marx established the historical mission of the proletariat as the grave-digger of capitalism and the builder of a new, socialist society.

The foundations of the Marxist world-outlook were proclaimed already in the first programme document of scientific Communism—the *Manifesto of the Communist Party*, written by Marx and Engels in 1848. Marx published the results of his further economic investigations in his work *A Contribution to*

the Critique of Political Economy (1859), devoted to an analysis of commodities and money; in the foreword to this book he gave a classical exposition of the principles of historical materialism. Marx's principal work, which with perfect justification he called his life work, is *Capital*. The first volume of *Capital* ("The Process of Capitalist Production") was published by Marx in 1867; the second volume ("The Process of Capitalist Circulation") was published by Engels after Marx's death, in 1885, and the third colume ("The Process of Capitalist Production as a Whole") in 1894. When working on *Capital*, Marx planned to write a fourth volume, devoted to a critical review of the history of political economy. The preparatory drafts which he left when he died were published after the death of Marx and Engels under the title of *Theories of Surplus Value* (in three volumes).

A number of classical works by Engels were also devoted to the working-out of the theory of scientific Communism. Amongst these are: *The Condition of the Working Class in England* (1845); *Anti-Dühring* (1878), in which are reviewed the most important questions in the fields of philosophy, natural science and the social sciences; *The Origin of the Family, Private Property and the State* (1884) and others.

In founding proletarian political economy, Marx first and foremost substantiated and consistently developed the *labour theory of value*. Investigating the commodity and the contradiction between its use-value and its value, Marx revealed that the labour incorporated in a commodity is twofold in character. On the one hand it is concrete labour, creating the use-value of the commodity, and on the other it is abstract labour, creating the commodity's value. His discovery of the twofold character of labour served Marx as the key to the scientific explanation of all the phenomena of the capitalist mode of production on the basis of the labour theory of value. By showing that value is not a thing but a production-relationship between people, concealed under the appearance of a thing, Marx revealed the secret of commodity fetishism. He analysed the form taken by value and investigated its historical development from the first rudimentary forms of exchange down to the complete dominance of commodity production, and this enabled him to discover the true nature of money.

The labour theory of value furnished Marx with the basis

for his teaching on *surplus-value*. Marx was the first to show that under capitalism it is not labour that is a commodity, but labour-power. He investigated the value and use-value of this particular commodity and elucidated the nature of capitalist exploitation. Marx's theory of surplus-value completely reveals the essence of the basic production relationship of capitalism—the relation between capitalists and workers, and lays bare the very foundations of class antithesis and class struggle between proletariat and bourgeoisie.

Marx did not only reveal the origin and source of surplus-value, he also showed how capitalist exploitation is disguised and concealed. He inquired into the essential nature of *wages* as the price of labour-power, appearing in transmuted form as the price of labour.

Marx analysed in profoundly scientific fashion the various forms which surplus-value assumes. He showed how surplus-value appears in transmuted form—in the form of *profit*, and how it then further takes the form of *ground-rent* and *interest*. Moreover, the deceptive appearance is created that wages are the price of labour, that profit is begotten by capital itself, ground-rent by land and interest by money.

In his teaching on the price of production and average profit Marx resolved the contradiction which exists in the circumstance that under capitalism market prices diverge from values. At the same time he revealed the objective basis of the class solidarity of the capitalists as regards the exploitation of the workers, inasmuch as the average profit received by each capitalist is determined by the level of exploitation not in the particular enterprise but in capitalist society as a whole.

Marx worked out the theory of differential rent and was the first to give a scientific foundation to the theory of absolute rent. He showed the reactionary, parasitic role of large-scale landownership and the essence and forms of the exploitation of the peasants by the landlords and bourgeoisie.

Marx was the first to discover the laws of the *accumulation of capital*, establishing that the development of capitalism, with the concentration and centralisation of capital, inevitably leads to deepening and sharpening of the contradictions characteristic of this system, at the basis of which lies the contradiction between the social character of production and the private, capitalist form of appropriation. Marx revealed the *general law*

of capitalist accumulation, which causes the growth of wealth and luxury at one pole of society and the growth of poverty, oppression and exhausting labour at the other pole. He showed that with the development of capitalism there takes place a relative and an absolute impoverishment of the proletariat, which results in the gulf between proletariat and bourgeoisie deepening and the class struggle between them becoming sharper.

Of the very greatest importance was the analysis which Marx provided of the *reproduction* of the entire social capital. Eliminating Smith's error of ignoring the constant capital used up in the production of a commodity, and establishing the division of the social product, so far as its value is concerned, into three parts ($c+v+s$), and, as regards its material form, into means of production and consumer goods, Marx discovered the general economic law by which the development of the productive forces takes place in any form of society, by way of a more rapid growth of the production of means of production as compared with that of consumer goods. Marx analysed the conditions for simple and extended capitalist reproduction and the deep-going contradictions of capitalist realisation which lead inevitably to crises of overproduction. He examined the nature of *economic crises* and showed scientifically that they are inevitable under capitalism.

The economic teaching of Marx and Engels provides a thorough and comprehensive proof of the inevitability of the downfall of capitalism and the triumph of the *proletarian revolution*, which sets up the *dictatorship of the working class* and opens a new era, the era of the building of socialist society.

As early as the 1870's and 1880's, Marxism began to be ever more widely accepted among the working class and the advanced intelligentsia of the capitalist countries. A great part in spreading the ideas of Marxism was played in those years by PAUL LAFARGUE (1842–1911) in France, WILHELM LIEBKNECHT (1826–1900) and AUGUST BEBEL (1840–1913) in Germany, G. V. PLEKHANOV (1856–1918) in Russia, DMITRI BLAGOEV (1855–1924) in Bulgaria and other outstanding figures of the working-class movement in other countries.

In Russia the Marxist workers' party and its world-outlook were formed in uncompromising struggle against opponents of Marxism, such as Narodism. The Narodniks denied the leading role of the proletariat in the revolutionary movement, they

declared that it was impossible for capitalism to develop in Russia. The Narodniks were opposed by Plekhanov and the "Liberation of Labour" group which he organised. Plekhanov was the first to give a Marxist critique of the Narodniks' mistaken ideas and at the same time he set forth a brilliant defence of Marxist views. Plekhanov's activity in the 1880's and 1890's was of great importance for the ideological training of Russia's proletarian revolutionaries. Plekhanov produced a number of outstanding works on the philosophy of Marxism. He successfully popularised in a number of works particular aspects of Marx's economic teaching, and defended this teaching against bourgeois criticism and reformist distortions. Plekhanov's writings effectively undermined the foundations of the Narodniks' position. But the ideological rout of Narodism was not completed. Even in the early period of his activity, Plekhanov had an incorrect understanding of a number of questions, which was the embryo of his later Menshevik views: he did not allow for the proletariat's need to draw the peasantry behind it in the course of the revolution, he looked upon the liberal bourgeoisie as a force which would support the revolution, etc. The task of finishing off Narodism as the enemy of Marxism and uniting Marxism with the working-class movement in Russia was carried out by Lenin.

The Further Degeneration of Bourgeois Economic Science. Present-day Bourgeois Political Economy

From the time that Marxism first appeared in the historical arena, the fundamental and decisive task before bourgeois economists has been the "refutation" of Marxism. All sorts of idealistic philosophies and subjective sociologies have provided the logical basis of the various schools and tendencies in bourgeois political economy.

There arose in Germany in the middle of the nineteenth century the so-called *historical school* of political economy (W. ROSCHER, B. HILDEBRANDT, etc.). The spokesmen of this school openly denied that any economic laws of social development exist and substituted for scientific inquiry the description of separate historical facts. Their denial of economic laws provided these economists with the justification for each and every arbitrary act on the part of reaction, and for their own

grovelling before the military-bureaucratic State, which they extolled in every way. Later representatives of the historical school, headed by G. SCHMOLLER, formed the so-called historico-ethical or historico-legal trend. The characteristic feature of this trend was the replacement of economic investigation by reactionary, idealist dissertations about moral purposes, legal norms, etc. Certain economists of the historical school, such as Hildebrand, together with other bourgeois economists (ADOLF WAGNER, L. BRENTANO, W. SOMBART) formed in 1872 the so-called "Social Policy League" for the purpose of preaching social reforms from their professorial chairs, with the aim of preventing the downfall of the capitalist system. Continuing the traditions of their predecessors, the representatives of this tendency, which was ironically called "Kathedersozialismus" (literally, "socialism of the professorial chair"), functioned as lackeys of the militarist German State. Some of them interpreted every measure taken by this State as a "piece of socialism". The "socialists of the professorial chair" glorified the reactionary policy followed by Bismarck and helped him to deceive the working class.

In the last decades of the nineteenth century, as Marxist ideas continued to spread, the bourgeoisie needed new ideological means of struggle against them. The so-called *Austrian School* then made its bow. The name of this school is connected with the fact that its principal spokesmen, K. MENGER, F. WIESER and E. BÖHM-BAWERK, were professors at Austrian universities. Unlike the historical trend, the spokesmen of the Austrian school gave formal acknowledgement to the need to investigate economic laws, but in order to embellish and defend the capitalist order they transferred the search for these laws from the sphere of social relations to the field of subjective psychology, i.e., they took the road of idealism.

In the field of the theory of value the Austrian school put forward the so-called principle of "marginal utility". According to this principle the value of a commodity is determined not simply by its utility, as certain vulgar economists had previously asserted, but by its marginal utility, i.e., by the least urgent of the needs of the individual which the given commodity unit satisfies. In fact, this theory explains nothing. It is quite obvious, for example, that the subjective evaluation of a kilogramme of bread is utterly different as between a sated

bourgeois and a hungry unemployed man, yet they both pay the same price for this bread. To Marx's theory of surplus-value the economists of the Austrian school counterposed one form or another of the "theory of the productivity of capital", which is merely a refurbished form of the vulgar theory of "the three factors of production".

The transition to imperialism and the extreme sharpening of social contradictions and class struggle connected with this led to a further degradation of bourgeois political economy. After the victory of the socialist revolution in Russia, which refuted in practice the assertions of the bourgeois ideologues about the eternity of the capitalist system, many bourgeois economists began to see as one of their main tasks the concealment from the working people of the capitalist countries, by means of slanders against the Soviet Union, distorting the essential nature of the Soviet system, of the truth about the world-historic achievements of the land of socialism. Modern bourgeois political economy is an ideological weapon of the finance oligarchy, and most of its representatives function openly and without concealment as defenders of imperialist reaction and aggression.

In their explanation of such categories of capitalism as value, price, wages, profit and rent, modern bourgeois economists usually adopt the standpoint of the subjective-psychological trend, one of the varieties of which is the Austrian school described above, and rehash in various ways the old vulgar theory of the three factors of production. The British economist ALFRED MARSHALL (1842–1924) tried eclectically to reconcile three different vulgar theories of value: supply and demand, marginal utility and costs of production. The American economist JOHN BATES CLARK (1847–1938) propagating the false notion of the "harmony of interests" between the different classes of bourgeois society, put forward the theory of "marginal productivity", which was in fact merely a peculiar attempt to combine the old vulgar theory of "productivity of capital" with the vulgar theory of "marginal utility" propounded by the Austrian school. Profit, according to Clark, is a sort of recompense for the work of the employer. The working people create only a small part of the world's wealth and receive it back in full.

Unlike the bourgeois economists of the epoch of pre-monopoly

capitalism, who extolled freedom of competition as the basic condition for society's development, modern bourgeois economists usually stress the need for all-round interference by the State in economic life. They extol the imperialist State as a force which stands above classes and is capable of subjecting the economy of the capitalist countries to the principle of planning. In reality, however, the intervention of the bourgeois State in economic life has nothing in common with the planning of the national economy, and intensifies the anarchy of production still further. The apologists of monopoly hypocritically describe as "organised capitalism" the subordination of the imperialist State to the finance oligarchy and their extensive utilisation of the State machine in their selfish interests, so as to increase the profits of the monopolies.

The first decades of the twentieth century in Germany saw the spread in Germany of the so-called *social trend*, or social-organic school of political economy (A. AMMON, R. STOLZMANN, O. SPANN, etc.). Unlike the Austrian school with its subjective psychological approach to economic phenomena, the spokesmen of the social trend dealt with social relations between men, but they looked on these relations idealistically as legal forms, lacking any material content. The economists of the social trend declared that social life is governed by legal and ethical norms. They covered up their zealous service to the capitalist monopolies with demagogic arguments about "the common welfare" and the need to subordinate the "part", i.e., the working masses, to the "whole", i.e., the imperialist State. They praised the activity of the capitalists, declaring it to be service to society. The reactionary fabrications of this school furnished an ideological weapon to fascism in Germany and in other bourgeois countries.

German fascism made use of the most reactionary elements of German vulgar political economy, its extreme chauvinism, its worship of the bourgeois State, its preaching of conquest of other peoples' lands together with "class peace" within Germany. The German fascists, who were the bitterest foes of socialism and of all progressive mankind, resorted in anti-capitalist demagogy and hypocritically styled themselves National-Socialists. The Italian and German fascists preached the reactionary theory of the "corporative State", according to which capitalism, classes and class contradictions had been

abolished in the fascist countries. The fascist economists justified the robber conduct of Hitlerite Germany in seizing the lands of other peoples by means of the so-called "race theory" and the "theory of living-space". According to these theories the Germans are a "higher race" and all the other nations are "inferior"; the "master race" has the right to seize by force the lands of the other, "inferior" races and to extend its rule throughout the world. The experience of history has shown graphically the foolishness and impracticability of Hitler's crazy plans to conquer world power.

In the period of the general crisis of capitalism, when the market problem has assumed unprecedented acuteness, economic crises have become both more frequent and more profound, and permanent mass unemployment is a regular feature of life, sundry theories have appeared which suggest that it is possible to secure "full employment" and to eliminate anarchy of production and crises while preserving the capitalist system. The theory of the British economist J. M. KEYNES (1883–1946) which he set forth in his book *A General Theory of Employment, Interest and Money* (1936) became widespread among bourgeois economists.

Concealing the true causes of permanent mass unemployment and crises under capitalism, Keynes tries to show that these "flaws" of bourgeois society arise not from the nature of capitalism but from the psychology of individuals. According to Keynes, unemployment results from insufficient demand for articles of personal and productive use. The inadequacy of consumer demand is caused by the inherent tendency which people have to save part of their income, and the inadequacy of demand for articles of productive use is due to the capitalists' loss of interest in investing their capital in the various branches of the economy because of the general fall in the "profitability of capital". In order to increase employment, Keynes declares, it is necessary to increase the investment of capital, and to this end the State must, on the one hand, ensure a growth in the profitability of capital by reducing the real wages of the workers through inflation and reduction of the bank rate, and, on the other hand, carry out large-scale capital investment at public expense. The extension of consumer demand, according to Keynes, may come from a further growth in the parasitic consumption and extravagance of the ruling classes and an

increase in expenditure for war purposes and other unproductive outlays by the State.

Keynes' theory is unsound. The inadequacy of consumer demand is due not to any mythical "inclination of people to save" but to the impoverishment of the working people. The measures proposed by Keynes allegedly in the interests of securing full employment—inflation, increase in unproductive expenditure on preparing and carrying on wars—lead in reality to a further reduction in the standard of living of the working people, to shrinkage of the market and increase in unemployment. The theory of Keynes in one variety or another is widely made use of nowadays by bourgeois economists and also by right-wing Socialists in a number of capitalist countries.

Characteristic of present-day bourgeois political economy in the U.S.A. is the theory which urges an increase in the State Budget and the public debt as a means of overcoming capitalism's defects. The American economist A. HANSEN, who considers that the possibilities of further development of capitalism through the operation of elemental economic forces alone have been substantially narrowed, declares that it is necessary for the State to "regulate" capitalist economy through artificially stimulating capital investment by means of extensive State purchases. According to the theory of Hansen and a number of other American bourgeois economists, State expenditure should serve as the "regulator of employment": during crises and depressions the Government must increase its expenditure and during inflation it must reduce it. Starting from this idea they call for an extension of the practice of State orders, the establishment of enterprises at State expense, the purchase of strategic material on a large scale, the expansion of the army and of the Government apparatus. In fact, all these forms of State expenditure, connected with the militarising of the economy and the arms drive, play a very great role in ensuring maximum profits to the monopolies.

After the second world war American bourgeois economists made extensive propaganda in favour of militarising the economy as a way of preserving it from economic crises of overproduction. According to these economists, a large demand for war purposes will guarantee an unbroken growth in production. This apologetic theory is refuted by reality, for the militarising of the economy can only hold back for a short

time the onset of an overproduction crises, and in the last analysis inevitably aggravates the contradiction between the growth of the productive potentialities and the narrowing of the effective demand of the population, which leads to economic crises.

Certain bourgeois economists in the U.S.A. and Britain call for "free play of economic forces", by which in fact they understand the unrestricted freedom of the monopolies to exploit the workers and fleece the consumers. These economists hypocritically declare the activities of the trade unions in defence of the workers to be a violation of "economic freedom", and eulogize the reactionary, anti-labour legislation of the imperialist States. Both the champions of "regulation" of the economy by the bourgeois State and the upholders of the "free play of economic forces" express the interests of the finance oligarchy, which tries to assure itself of maximum profits through further intensifying exploitation of the working masses inside the country and through imperialist aggression in the international arena.

Some bourgeois economists try to justify the aggressive policy of seizure of other peoples' lands by the imperialist Powers, and their enslavement and plundering of other peoples, by anti-scientific fabrications about the "inequality" of the various races and nations, about the civilising mission of the "higher" races and nations in relation to the "lower" ones, etc. Especially zealous in this direction are the most reactionary American economists who, following in the footsteps of the German fascists, are propagating the man-hating idea of the "superiority" of the English-speaking nations over all other peoples, and trying to justify by all possible means the crazy plans for establishing domination of the world by the U.S.A. In this connection they diligently extol the "American way of life", putting forward, in fact, the theory, long since refuted, of "American exceptionalism", which was current in the 1920's and asserted that American capitalism differed in principle from European, that it was free from such "evils" as class contradiction and class struggle, the domination of monopoly, colonialism, and so on. American capitalism was defined as "people's", "democratic", "labour" capitalism. In reality, nowhere is the domination of capital over labour, the despotism of monopoly in all fields of economic and political life and the

subordination of the State apparatus to the financial oligarchy so clearly apparent as in the U.S.A.

Many apologists of American imperialism express themselves against the independence of peoples and national sovereignty and declare that the existence of national States is the fundamental cause of all the social calamities of present-day bourgeois society—militarism, war, unemployment, poverty, etc. To the principle of national sovereignty they oppose the cosmopolitan idea of a "world State" in which the leading role would be played, of course, by the U.S.A. The preaching of cosmopolitanism has as its task to disarm the peoples ideologically, to break their will to resist the encroachments of American imperialism.

Many bourgeois economists in the U.S.A. are putting out direct propaganda for another world war. They depict war as a natural and eternal feature of social life, and they declare that peaceful co-existence between the countries of the capitalist camp and those of the socialist camp is impossible.

For the purpose of the preparation of another world war there is widespread propaganda in bourgeois writings for the long-since discredited theory of Malthus. Characteristic of modern Malthusianism is the combination of Malthus's reactionary ideas with the race theory. Malthusian economists claim that the world is overpopulated owing to the "excessive multiplication" of man, which is also the basic cause of food-shortage and of all other woes suffered by the working masses. They demand a sharp reduction in the numbers of the population, especially in the colonial and dependent countries, the people of which are carrying on a fight for liberation against imperialism. The Malthusians of today call for the waging of devastating wars and the use of atomic bombs and other means of mass annihilation.

Life shows the utter untenability of the theoretical constructions of present-day bourgeois political economy, its menial role in relation to monopoly capital, its inability to give a scientific analysis and positive solution of the economic problems of the present epoch.

The petty-bourgeois criticism of imperialism. In contrast to Sismondi, who regarded the system of free competition as the primary source of all the evils of capitalism, a considerable section of the petty-bourgeois economists of the imperialist epoch extol the capitalism of the epoch of free competition, depicting it as the best of economic systems. They turn the

edge of their criticism not against capitalism in general but only against the unrestricted rule of the capitalist monopolies, seeing in their arbitrary power the fundamental threat to "economic freedom", "individual initiative", etc.

The works of the petty-bourgeois critics of capitalism contain a wealth of factual information exposing the predatory behaviour of the monopolies. But the petty-bourgeois economists criticise the monopolies from a reactionary-utopian standpoint, calling for a return to the capitalism of free competition. They deny the need to go forward to socialism, without which the elimination of the rule of the monopolies is unthinkable. The petty-bourgeois criticism of imperialism sows illusions about the possibility of doing away with the "abuses" of monopoly and strengthening the position of small and medium concerns by means of "anti-trust legislation" and all manner of measures to encourage small businesses and combat the speculative machinations of the financial sharks, while preserving capitalism. The petty-bourgeois economists sow illusions by affirming that, in capitalist conditions, it is possible to save the small commodity producers—the peasants and handicraftsmen—from ruin, and fundamentally to improve the position of the workers through developing consumer, agricultural and artisan co-operatives.

In present-day circumstances many representatives of petty-bourgeois political economy function as exponents of the discontent among the petty-bourgeois strata of the population against the arbitrary power of the monopolies, the despotism of the State, the unbearable burden of taxes and the growing danger of war. In the Western European countries, and also especially, in the underdeveloped countries, the representatives of this trend take an active part in the democratic movement against encroachment by America's imperialism upon the national sovereignty of other countries, against the arms drive and against the policy of preparing another world war.

The Economic Theories of the Opportunists of the Second International and the Right-wing Socialists of Today

The countless attempts made by bourgeois science to "destroy" Marxism in no way shook its position. Then the struggle against Marxism began to be waged under the flag of

effecting the "improvement" or "interpretation" of Marx's theory. "The dialectics of history were such that the theoretical victory of Marxism obliged its enemies to *disguise themselves* as Marxists." (Lenin, "The Historical Fate of Marx's Teaching", *Selected Works*, 1950 edition, vol. I, Pt. I, p. 84.) The revisionists tried to adapt proletarian political economy to the interests of the bourgeoisie.

In the 1890's, *revisionism* came on the scene, with the German Social-Democrat E. BERNSTEIN as its chief spokesman. The revisionists took the field against Marx and Engels' teaching on the inevitability of the revolutionary downfall of capitalism and the setting-up of the dictatorship of the proletariat. They subjected all sections of Marx's revolutionary economic teaching to thorough revision. The revisionists proposed to combine Marx's labour theory of value with the theory of marginal utility, and, in essentials, to replace it by the latter. Marx's teaching on surplus-value they interpreted in the sense of "moral condemnation" of capitalist exploitation. Sheltering behind alleged "new data" on the development of capitalism, the revisionists described as "out of date" Marx's teaching on the victory of large-scale production over small, on the impoverishment of the proletariat in capitalist society, on the irreconcilability and increasing acuteness of class contradictions, on the inevitability of economic crises of overproduction under capitalism. They called on the workers to refrain from revolutionary struggle to overthrow the capitalist system and to limit their struggle to current economic interests. In Russia the views of revisionism were upheld by the so-called "legal Marxists", who were in fact ideologists of the bourgeoisie (P. STRUVE, M. TUGAN-BARANOVSKY, etc.) and by the spokesmen of the opportunist group of "Economists" and by the Mensheviks.

A more subtle form of distortion of Marxism was undertaken by the opportunists of the Second International K. KAUTSKY (1854–1938), R. HILFERDING (1877–1941) and others. At the beginning of their activity they were Marxists and contributed to the spread of Marx's teachings. In this connection should be mentioned such works of K. Kautsky's as *The Economic Doctrine of Karl Marx*, *The Agrarian Question* and others, and also Hilferding's work *Finance Capital* (1910), which, in spite of the mistakes which it contained, played a definite positive role in the scientific study of the modern phase of capitalist development.

Later, however, Kautsky and Hilferding passed over in effect to the position of opponents of revolutionary Marxism, though continuing for the time being to appear in the guise of "orthodox" pupils of Marx and Engels. Objecting in words —and that inconsistently—to certain theses of the revisionists, these opportunists nevertheless emasculated Marxism of its revolutionary essence and tried to transform it into a dead dogma. They threw out the doctrine of the dictatorship of the proletariat, which is the heart of Marxism, denied the absolute impoverishment of the working class, and affirmed that crises were disappearing under capitalism.

Slurring over the profound contradictions of monopoly capitalism in every way, K. Kautsky treated imperialism as merely a particular kind of policy, viz., as the striving of highly-developed industrial countries to subject agrarian countries to themselves. This theory sowed the illusion that a predatory policy did not result from the essential nature of monopoly capitalism. During the first world war Kautsky put forward the anti-Marxist theory of *ultra-imperialism* (super-imperialism), asserting that it might be possible under imperialism by agreement between the capitalists of the different countries to create an organised world economy and thereby eliminate anarchy of production and war. Characteristic of this reactionary theory was the separation of economics from politics and the ignoring of the law of uneven development of the capitalist countries in the epoch of imperialism. The theory of "ultra-imperialism" whitewashed imperialism and disarmed the working class to the advantage of the bourgeoisie, by giving rise to illusions about peaceful and crisisless development of capitalism. These same purposes were served by the vulgar theory of the productive forces which Kautsky also propagated; according to this theory socialism is a mechanical outcome of the development of the productive forces of society, without class struggle or revolution. After the great October Socialist Revolution in Russia Kautsky took the road of open struggle against the first dictatorship of the proletariat to be established in the world, and called for intervention against the Soviet Republic.

R. Hilferding, in his work *Finance Capital*, slurred over the decisive role played by monopoly in modern capitalism and the sharpening of its contradictions, and ignored very important features of imperialism—the parasitism and decay of capitalism,

the partition of the world and the struggle to re-divide it. During the years of temporary and partial stabilisation of capitalism after the first world war, Hilferding followed the bourgeois economists in affirming that the era of "organised capitalism" had arrived, when thanks to the activity of the monopolies competition, anarchy of production and crises were disappearing and planned, conscious organisation had begun to prevail. From this the reactionary leaders of the Social-Democratic parties drew the conclusion that the trusts and cartels were peacefully "growing" into planned socialist economy; all that remained for the working class to do was to help the trust magnates and bankers to adjust their economy, and then present-day capitalism would gradually, without any conflict or revolution, "grow" peacefully into socialism.

Thus the whitewashing of imperialism by Kautsky, Hilferding and other reformist theoreticians of Social-Democracy was inseparably linked with their preaching of a "peaceful growth of capitalism into socialism", aimed at deflecting the working class from the tasks of the revolutionary struggle for socialism, at subordinating the workers' movement to the interests of the imperialist bourgeoisie. This purpose was served, especially, by the spreading by certain right-wing socialist leaders in the between the two world wars period of the apologetic theory of "economic democracy". According to this theory the workers who as representatives of trade unions appear before factory managements and other administrative bodies are sharing equally in the management of the economy, and are gradually becoming masters of industry. By their policy of betraying the interests of the working class the Social-Democrats of the Second International cleared the way for fascism in Germany and several other countries.

A variety of the reformist theory of the peaceful growth of capitalism into socialism is the theory of "co-operative socialism", which is based on the illusion that the spread of forms of co-operation alongside preservation of the rule of capital will bring about socialism.

In Russia anti-Marxist, Kautskyist views on questions of the theory of imperialism were spread by the enemies of socialism—the Mensheviks, Trotskyists, Bukharinists and others. Preaching apologetic theories of "pure imperialism", "organised capitalism", etc., they endeavoured to slur over the sharpening

contradictions of monopoly capitalism. Denying the law of uneven development of capitalism in the epoch of imperialism, they tried to poison the workers' minds with disbelief in the possibility of the victory of socialism in a single country.

In the period following the second world war the right-wing reformist leaders of the British Labour Party and the right-wing socialist leaders in France, Italy, Western Germany, Austria and other countries (L. BLUM, K. RENNER, etc.) have come forward as defenders of capitalism. The leaders of the right-wing socialists defend the monopolies, preach class peace between the workers and the bourgeoisie, and often actively support the reactionary internal and aggressive foreign policies of imperialism. Endeavouring to reconcile the working people to imperialism, and to inspire in the working class faith in the possibility of improving its poverty-stricken lot while preserving the capital system, the right-wing socialist theoreticians have composed the theory of "democratic socialism", which is a variant of the theory of peaceful growth of capitalism into socialism.

The theory of "democratic socialism" affirms that in Britain, France, the U.S.A. and other capitalist countries exploitation and antagonism of class interests between the proletariat and the bourgeoisie now no longer exist; the imperialist State is proclaimed an organisation above classes and every enterprise belonging to this State a "socialist" enterprise. The Labour leaders have claimed the nationalisation of the Bank of England, of the railways and of certain branches of industry which they carried out when they were in power after the second world war as triumphs of "democratic socialism". In reality, Labour Party nationalisation was a bourgeois measure, which in no way modified the economic nature of the nationalised enterprises as capitalist enterprises. The actual rulers of Britain continued to be the monopolist bourgeoisie. The owners of the nationalised enterprises, which had formerly been unprofitable, received generous compensation and a high, guaranteed income, while the workers employed in the nationalised branches of industry were obliged to work still more intensively at a low level of wages. The theory of "democratic socialism" serves as a screen concealing the growing oppression of the working masses by State-monopoly capitalism, which constitutes the highest degree of domination by the finance oligarchy.

While preaching "class peace" in capitalist society, the leaders of the right-wing socialist parties at the same time actively help the bourgeoisie to carry out an offensive on a wide front against the standard of living of the working masses, and to suppress the labour movement in the metropolitan countries and the national-liberation movement in the colonies and dependent countries. In their interpretation and evaluation of all the most important economic phenomena of the present epoch they usually followed in the footsteps of the bourgeois economists.

A consistent fight against the "theories" of the bourgeois economists and right-wing socialist leaders is carried on by the Communist and Workers' Parties, which are guided in their activity by the theory of Marxism-Leninism.

The ideas of advanced Marxist-Leninist theory are finding ever-wider acceptance among the progressive sections of the intelligentsia in the capitalist, colonial and semi-colonial countries, including the economists. The objective course of social development, the facts of real life, are to an increasing extent convincing economic scientists in the capitalist countries of the historical correctness of the theory of Marxism-Leninism. In the works of these economists, who support the materialist world outlook and are attracted towards Marxism, there is often to be found valuable material exposing the contradictions and defects of capitalism today and advocating the idea of peaceful co-existence between different social systems and economic co-operation between the peoples. An army of progressive scholars and scientists and public men of various views and trends is growing and multiplying, taking an active part in the fight for the national independence of their peoples, for peace, for the development of economic and cultural links between all countries regardless of differences in their social systems.

The Development of the Marxist Political Economy of Capitalism by V. I. Lenin. The Working-out of a Number of New Propositions in the Political Economy of Capitalism by J. V. Stalin

The economic teaching of Marx and Engels was given further creative development in the works of V. I. LENIN (1870–1924). Marx, Engels and Lenin are the creators of genuinely scientific

political economy. As a true follower and continuer of the teachings of Marx and Engels, Lenin carried on an irreconcilable struggle against both open and concealed enemies of Marxism. Lenin stood up for the revolutionary teaching of Marx and Engels against the attacks of bourgeois pseudo-science and against distortions by the revisionists and opportunists of every brand. Basing himself on the generalisation of new historical experience of the class struggle of the proletariat, he raised the teaching of Marxism to a new and higher level.

Lenin entered the political battlefield in the 1890's, when the transition from pre-monopoly capitalism to imperialism was being completed, when the centre of the world revolutionary movement was passing to Russia—a country in which a mighty people's revolution was coming to maturity.

In his works of the 1890's—*On the So-Called Question of Markets* (1893), *What the "Friends of the People" are and how they fight the Social-Democrats* (1894), *The Economic Content of Narodism and the Criticism of it in Mr. Struve's Book* (1894), *A Characterisation of Economic Romanticism* (1897)—Lenin waged a consistent fight both against the Narodniks, who declared that capitalism would not develop in Russia, and against the "Legal Marxists", who extolled capitalism, slurred over its deep-going contradictions and endeavoured to subordinate the growing movement of the working class to the interests of the bourgeoisie. The ideological rout of Narodism was completed by Lenin's classical work *The Development of Capitalism in Russia* (1899), which was the most considerable work of Marxist writing since Marx's *Capital*.

In this work, and in his other writings of the 1890's, Lenin thoroughly analysed the economy of Russia and showed the economic foundations of class contradictions and class struggle and the prospect before the revolutionary movement. Generalising the experience of the economic and political development of Russia and other countries in the last decades of the nineteenth century, Lenin upheld and developed the propositions of Marxism about the laws governing the rise and development of the capitalist mode of production, about its insoluble contradictions and inevitable doom. Refuting the Narodniks' fabrications concerning the "artificiality" of Russian capitalism, Lenin showed the special features of the economy and social system of Russia, connected with the

peculiarities of its historical development, in particular the combination of methods of capitalist exploitation with numerous survivals of the yoke of serfdom, which gave a special sharpness to social relations in Russia.

In his fight against the contemptuous attitude of the Narodniks towards the proletariat, Lenin showed that the development of capitalism inevitably leads to a growth in the numbers, degree of organisation and consciousness of the working class, which is the advance-guard of the entire mass of the working and exploited people. He gave a comprehensive justification of the leading role of the proletariat in the revolution.

Lenin ascertained the essence of the differentiation among the peasantry of Russia in the period since the Reform[1], and the close interweaving of survivals of serf bondage with the oppression of capitalist relations, refuting the Narodnik conception of the peasantry as a homogeneous mass. He showed the economic basis for the possibility and necessity of a revolutionary alliance between the working class and the working and exploited masses of the peasantry.

Lenin revealed the economic foundation of those peculiarities of the Russian revolution which made it a revolution of a new type—a bourgeois-democratic revolution led by the proletariat and having the prospect of *growing* into a socialist revolution.

The Development of Capitalism in Russia sums up a number of works of Lenin's on the *theory of capitalist reproduction*. In these works he refuted the Sismondian statements of the Narodniks about the impossibility of realising surplus-value in the absence of petty producers and foreign markets, and gave a comprehensive substantiation of the Marxist thesis that the market for capitalism is created by the very development of capitalism itself. Lenin developed further the theses of Marxism about the law of preferential growth of the production of means of production under extended reproduction, about the contradictions of capitalist realisation, about the growth in the organic composition of capital as a factor in the impoverishment of the proletariat and about the inevitability under capitalism of periodical crises of overproduction.

Lenin's works on the *agrarian question* made a most valuable contribution to Marxist political economy; in these he scientifically

[1] i.e., since the abolition of serfdom in 1861—*Editor, English edition.*

generalised a great deal of information on the development of capitalism in the agriculture of Russia and of a number of other countries (France, Germany, Denmark, U.S.A., etc.). In his works *The Agrarian Question and the "Critics of Marx"* (1901–7), *The Agrarian Programme of Social-Democracy in the First Russian Revolution of 1905–7* (1907), *New Data on the Laws of Development of Capitalism in Agriculture* (1914–15) and others, Lenin investigated deeply and comprehensively the laws of capitalist development in agriculture, which had been indicated by Marx only in general outline.

In his struggle against West European and Russian revisionism, which described agriculture as a branch of the economy to which the laws of the concentration and centralisation of capital did not apply, Lenin gave a scientific analysis of the special features of the development of capitalism in the countryside. He showed the profound contradictoriness of the economic position of the bulk of the peasantry and the inevitability of their being ruined in bourgeois society. Lenin upheld and developed the Marxist theory of differential and absolute ground-rent. Demonstrating the significance of absolute rent as one of the most important factors hindering the development of the productive forces in agriculture, Lenin worked out comprehensively the question of the possibility, conditions and economic consequences of nationalising the land in the bourgeois-democratic and socialist revolutions. He exposed the bourgeois economists who propagated the pseudo-scientific "law of diminishing returns from the soil". Combating the opportunist line of the West European parties of the Second International and of the Russian Mensheviks, including the Trotskyists, in relation to the peasantry, Lenin showed the need for the working class to follow a policy calculated to transform the bulk of the peasantry into an ally of the revolutionary proletariat.

Lenin's theory of the agrarian question was a profound economic justification of the policy of the Communist Party of Russia in the sphere of relations between the proletariat and the peasantry, and in particular of the demand for nationalisation of the land, included in its programme. Lenin's works on the agrarian question constitute the theoretical basis for the agrarian programme and agrarian policy of the Communist Parties in other countries.

Of very great importance for the development of Marxist theory was the struggle which Lenin waged in defence of dialectical and historical materialism in his notable work *Materialism and Empirio-criticism*. This book dealt a crushing blow at the very foundations of the revisionists' "theories"—their idealist philosophy.

Lenin exposed the utter unsoundness of the revisionist criticism of Marxist political economy. He showed the bankruptcy of revisionism on all the principal questions of the political economy of capitalism—the theory of value, the theory of surplus-value, the theory of the concentration of capital, the theory of crises, etc.

Marx and Engels, living as they did in the epoch of pre-monopoly capitalism, naturally could not furnish an analysis of imperialism. The great merit of having carried out the Marxist investigation of the monopoly stage of capitalism is Lenin's.

Basing himself on the fundamental propositions of *Capital* and generalising the new phenomena in the economy of the capitalist countries, Lenin, first among Marxists, gave an all-round analysis of imperialism as the last phase of capitalism, as the eve of the social revolution of the proletariat. This analysis is contained in his classical work *Imperialism, the Highest Stage of Capitalism* (1916) and in other works of the first world war period: *Socialism and War*, *The United States of Europe Slogan*, *A Caricature of Marxism and "Imperialist Economism"*, *Imperialism and the Split in Socialism*, and *The Military Programme of the Proletarian Revolution*.

Lenin's theory of imperialism starts from the fact that the most profound basis of imperialism, its economic essence, is the domination of monopoly: that imperialism is monopoly capitalism. Lenin subjected the main economic features of imperialism and the concrete forms of monopoly domination to comprehensive examination. Lenin's teaching on imperialism, on the replacement of free competition by the domination of monopolies which draw high monopoly profits, and on the sources and methods of ensuring these high monopoly profits, provided the initial propositions for the basic economic law of monopoly capitalism. Describing imperialism as a new and higher stage of capitalism, he defined the place of imperialism in history and showed that imperialism is capitalism in its

monopolistic, parasitic or decaying and moribund stage. Lenin's theory of imperialism reveals the contradictions of capitalism in the monopoly stage of its development—the contradictions between labour and capital, between the metropolitan countries and the colonies, and between the imperialist countries. It explains the profound causes which render inevitable imperialist wars for a new repartition of the world. The aggravation and deepening of all these contradictions reaches extreme limits, beyond which the revolution begins. Lenin demonstrated the just character of the struggle for liberation waged by the peoples against imperialist oppression and enslavement.

Lenin worked out the question of State-monopoly capitalism, of the subjection of the bourgeois State machine to the monopolies. He showed that State-monopoly capitalism means the highest form of capitalist socialisation of production and the material preparation for socialism, on the one hand, and, on the other, means exploitation of the working class and all the working masses in every possible way.

Lenin discovered the *law of uneven economic and political development* of capitalist countries in the imperialist period. Taking this law as his starting-point, he made the great scientific discovery that it was possible to break the chain of world imperialism at its weakest link, the deduction that the victory of socialism could occur first of all in a few countries or even in a single country, and that a simultaneous victory of socialism in all countries was not possible. Lenin proved the tremendous role of the peasantry as the proletariat's ally in the revolution. Lenin worked out the theory of the national and colonial question and indicated the lines along which it should be solved. He showed the possibility and necessity of linking up the proletarian movement in the developed countries with the national liberation movement in the colonies in a united front of struggle against the common enemy—imperialism. Lenin's theory of imperialism showed the necessity of socialist revolution and of the dictatorship of the working class in the conditions of the new epoch of history, the epoch of direct and decisive battle by the proletariat for socialism. Thus, Lenin created a new, finished *theory of socialist revolution.*

Lenin worked out the principles of the doctrine of the general crisis of capitalism—the historical period of the downfall of the

capitalist system and the victory of the new, higher, socialist system. Already in the period of the first world war he drew the conclusion that the epoch of comparatively peaceful development of capitalism was over, and that the imperialist war, which was a tremendous historical crisis, was opening the era of socialist revolution. The war created such a boundless crisis, said Lenin on the eve of the great October Socialist Revolution, that mankind found itself confronted with the choice: either to perish or to entrust its fate to its most revolutionary class, in order to bring about as rapid as possible a transition to a higher mode of production—socialism. From the fact established by Lenin of the uneven ripening of socialist revolution in the different links of the world capitalist system, it follows that the downfall of capitalism and the victory of socialism take place by way of the falling-away from the capitalist system of separate countries, in which victory has been won by the working class, advancing to power in close and unbreakable alliance with the basic working masses of the peasantry and gathering around itself the overwhelming majority of the people. Lenin showed that peaceful co-existence of the two systems, capitalist and socialist, over a long period of history was both possible and necessary.

Lenin worked out the theory of imperialism and of the general crisis of capitalism in irreconcilable struggle against the bourgeois economists and opportunists of the Second International. He exposed the complete theoretical unsoundness and political harmfulness of Kautsky's anti-Marxist theory of "ultra-imperialism", and of the variants of this theory put forward by Trotsky and Bukharin. In his struggle against Bukharin's distortions of Marxism, Lenin stressed more than once that "pure imperialism", without a foundation of capitalism, never existed, exists nowhere, and cannot exist. Characteristic of imperialism is precisely the union of monopoly with exchange, the market, competition. Rising above the old capitalism like a sort of superstructure upon it and direct prolongation of it, imperialism accentuates still further all the contradictions of bourgeois society. Lenin showed the profound connection between opportunism and imperialism and exposed the political role of the opportunists as agents of the bourgeoisie in the workers' movement. Lenin laid bare the roots of the opportunist trends in the labour movement, showing that these

trends arise on the basis of the bribing and corruption by the bourgeoisie of the uppermost strata of the working class. Lenin dealt a crushing blow to the apologetic treatment of State-monopoly capitalism by the opportunists, who tried to present it as "socialism". Lenin's works directed against opportunism are very important for the revolutionary movement, since without exposing the ideological and political content of opportunism and its treacherous role in the workers' movement there can be no real struggle against capitalism.

Problems of Marxist-Leninist political economy were further developed, and made more concrete, in the resolutions and documents of the Communist Party of the Soviet Union and in the works of J. V. STALIN (1879–1953) and other companions-in-arms and pupils of Lenin's.

Basing himself on the works of Marx, Engels and Lenin, Stalin put forward and developed a number of new propositions in the field of economic science, founded on generalisations of new experience of historical development, new practice in the struggle of the working class and its Communist Party. At the same time Stalin's works consistently defended Marxist political economy against the enemies of revolutionary Marxism and popularised its basic problems and propositions.

Exposing the falsity of the claims made by bourgeois economists and by the reformists that the contradictions of capitalism become mitigated in the course of its historical development, Stalin showed the inevitability of a further aggravation and accentuation of these contradictions, testifying to the inevitable doom of capitalism. A number of important propositions in the field of the agrarian question were developed in Stalin's works. In conflict with revisionism, Stalin, basing himself on new arguments, showed the utter unsoundness of the theory of the "stability" of small peasant economy. Only abolition of the system of capitalist slavery can save the peasantry from ruin and beggary. The peasant question is a question of transforming the exploited majority of the peasantry from a reserve of the bourgeoisie into a direct reserve of the revolution, into an ally of the working class, fighting to abolish the capitalist system. In his work *Marxism and the National Question* (1913) and in other works Stalin further elaborated the national question. He showed the significance of the economic conditions of social life in the formation of nations and national

States. Community of economic life is one of the distinguishing marks of a nation. The process of the abolition of feudalism and the development of capitalism is at the same time a process of forming people into nations. Stalin elucidated the importance of the national market in the process of creating national States in Western Europe, and described the special features of the historical process of formation of States in the East.

The Communist Party of the Soviet Union, led by its Central Committee headed by J. V. Stalin, upheld Marxist-Leninist theory as a whole, and Marxist-Leninist economic teachings in particular, against the attacks of the enemies of Leninism—the Trotskyists, Bukharinists and bourgeois nationalists. Of particular importance for the destinies of socialism in the U.S.S.R. and throughout the world was their defence and further development of Lenin's teaching on the possibility of the victory of socialism in one country, Lenin's theory of socialist revolution.

In a number of Stalin's works *Foundations of Leninism*, *Problems of Leninism*, *Economic Problems of Socialism in the U.S.S.R.*, reports to congresses and conferences of the C.P.S.U., Lenin's propositions on the economic and political essence of imperialism and of the general crisis of capitalism, and on the laws of development of monopoly capitalism, were further developed. Basing himself on Lenin's classical statements concerning the economic essence of imperialism, which consists in the domination of monopoly and high monopoly profits, Stalin formulated the basic economic law of modern capitalism. He gave a detailed analysis of the general crisis of capitalism and of its two stages: the first beginning in the period of the first world war, and the second which developed in the period of the second world war, especially after the breaking away from the capitalist system of the People's Democracies of Europe and Asia.

Exposing the hirelings of the bourgeoisie who sing the praises of the capitalist system of economy, he gave a comprehensive description of the general crisis of capitalism, which involves both economics and politics. The most vivid expression of the general crisis of capitalism is the world-historic victory of the great October Socialist Revolution in the U.S.S.R. and the splitting of the world into two systems—capitalist and socialist. A component part of the general crisis of capitalism is the crisis of the colonial system of imperialism.

In Stalin's works there are elucidated the nature and importance of such features of the general crisis of capitalism as the extreme aggravation of the problem of markets, the chronic under-capacity working of enterprises, and constant mass unemployment. Giving an analysis of the changes in the character of the capitalist cycle and of the economic crises in the present epoch, Stalin showed the fruitlessness of attempts by the bourgeois State to cope with crises and the unsoundness of claims that planned management of the economy is possible under capitalism. In Stalin's works are exposed the deeply reactionary and aggressive nature of fascism and the treacherous role of the right-wing socialists of the present day.

Marxist-Leninist political economy serves as a guide to action for the Communist and Workers' Parties of all countries. It illuminates the working people's path to liberation from the yoke of capital.

Part Three

THE SOCIALIST MODE OF PRODUCTION

A. THE TRANSITIONAL PERIOD FROM CAPITALISM TO SOCIALISM

CHAPTER XXIII

MAIN FEATURES OF THE TRANSITIONAL PERIOD FROM CAPITALISM TO SOCIALISM

The Proletarian Revolution and the Necessity for a Transitional Period from Capitalism to Socialism

The whole course of development of the capitalist mode of production and of the class struggle in bourgeois society inevitably leads to the revolutionary replacement of capitalism by socialism. Capitalism gives rise to large-scale machine industry which is the material prerequisite for the transition to socialism. In the shape of the proletariat, the development of capitalism prepares the social force which carries out this transition. As has been shown above, in the epoch of imperialism the conflict between the growing productive forces and bourgeois relations of production, which have become fetters on these productive forces, assumes unparalleled acuteness. The law that the relations of production must necessarily correspond to the character of the productive forces requires the abolition of the old bourgeois production-relations and the creation of new socialist productive relations. Hence, there arises the objective necessity of the *proletarian socialist revolution.*

There can be no peaceful "growing" of capitalism into socialism, as preached by the opportunists, because of the opposite natures of the very foundations of bourgeois and socialist society and of the antagonistic interests of labour and capital. The transition from capitalism to socialism is only possible by way of proletarian revolution and the dictatorship of the proletariat. The proletariat, by virtue of its economic position, is the only class capable of uniting the whole of the working people around itself, for the overthrow of capitalism and the victory of socialism.

Proletarian revolution is fundamentally different from all preceding revolutions. In the transition from slavery to feudalism and from feudalism to capitalism, one form of private property was replaced by another, and the power of one group

of exploiters by that of another. Because all exploiting societies had foundations of a similar type—private ownership of the means of production—the new economic structure matured gradually in the womb of the old form of production. Thus, in the transition from feudalism to capitalism, new bourgeois relations of production gradually developed in the womb of the old system, more or less ready-made forms of the capitalist order grew up. The task of the bourgeois revolution consists of the seizure of power by the bourgeoisie in order to bring this power into accord with the existing capitalist economy and to sweep away the fetters of the old, feudal society which hamper the growth of capitalism. With the solution of this task, the bourgeois revolution is usually accomplished.

Proletarian revolution aims at replacing private ownership of the means of production by social ownership, and abolishing every kind of exploitation of man by man. It does not find any ready-made forms of socialist economy. A socialist form of society, based on social ownership of the means of production, cannot grow up in the womb of a bourgeois society based on private ownership. Having established the power of the proletariat, the proletarian revolution has the task of building a new socialist economy. The conquest of power by the working class is only the beginning of the proletarian revolution, and power is used as a lever for the reconstruction of the old economy and the organisation of the new.

Consequently, the replacement of capitalism by socialism requires in each country a special *transitional period* which occupies a whole historical epoch, in the course of which the building of socialist economy and radical reconstruction of all social relations takes place.

> "Between capitalist and communist society lies the period of the revolutionary transformation of the one into the other. There corresponds to this also a political transition period, in which the State can be nothing but the *revolutionary dictatorship of the proletariat.*" (Marx, "Critique of the Gotha Programme", Marx and Engels, *Selected Works*, 1951, vol. II, p. 30.)

The transitional period from capitalism to socialism begins with the establishment of proletarian power and is completed with the construction of socialism, the first phase of communist society. During the transitional period the old capitalist

basis is abolished, a new socialist basis is created and the development of productive forces necessary for the victory of socialism is assured. During this period the proletariat must temper itself as the force capable of administering the country, of building socialist society and re-educating the petty bourgeois masses in the spirit of socialism.

Basing himself on the principles of Marx and Engels, Lenin worked out the theory of the transitional period from capitalism to socialism and the dictatorship of the proletariat, which equipped the working class and all working people with a scientific approach to the building of socialism.

The proletarian revolution was first victorious in Russia. The development of capitalism in Russia was sufficient for the victory of the proletarian revolution. At the same time Russia was the focal point for all the contradictions of imperialism. This greatly intensified the revolutionary activity of the proletariat and the gathering around it of the peasant masses. In October 1917, under the leadership of the Communist Party which was equipped with Lenin's theory of the socialist revolution, the Russian proletariat, in alliance with the poor peasantry, overthrew the power of the capitalists and landlords and established its own dictatorship. The great October Socialist Revolution, which for the first time in the history of mankind had opened the way to socialism, gave an example of the essential features of the proletarian revolution in any country. In this connection, it must be borne in mind that the socialist revolution in each country seceding from the imperialist system necessarily has its own peculiarities, arising from the particular historical conditions of development of each country and the prevailing international situation.

Lenin discovered and scientifically proved the possibility, in certain historical conditions, of a *non-capitalist path* of development in socially and economically backward countries. Having thrown off the yoke of imperialism, these countries are able, with the help of advanced countries where the proletarian revolution has been victorious, to avoid the prolonged and agonising process of capitalist development and, by-passing the capitalist stage, are able gradually to begin building socialism.

Thus, an example of the non-capitalist path of development is the Mongolian People's Republic, where feudal relations earlier prevailed. Thanks to the assistance of the Soviet Union,

the Mongolian People's Republic was able to develop along the path to socialism, without passing through capitalism.

The Dictatorship of the Proletariat as the Instrument for Building a Socialist Economy

Because the proletarian revolution has the task of creating the socialist system of economy, based on social ownership of the means of production, and of ending every kind of exploitation, it cannot avoid breaking up the old State machine, which suppressed the working people, and forming a new State capable of ensuring the establishment of the new economy. The proletarian revolution gives birth to a *State of a new type* —the dictatorship of the proletariat. The economic and political emancipation of the working people and the transition from the capitalist to the socialist mode of production is impossible without the dictatorship of the proletariat as its political superstructure. *The dictatorship of the proletariat* is the State leadership of society by the working class.

The dictatorship of the proletariat is a real democracy which reflects the deepest interests of the working people. With the dictatorship of the proletariat, the working people become, for the first time in history, the masters of their country. In all its previous forms the State has held down the exploited majority in the interest of an exploiting minority. The dictatorship of the proletariat holds down the exploiting minority in the interests of the working-class majority. Whereas the bourgeois revolution, in consolidating the new capitalist form of exploitation, cannot rally the working people and exploited masses around the bourgeoisie for any length of time, the proletarian revolution, in abolishing every kind of exploitation, can and must bind these masses to the proletariat in a permanent alliance. The alliance of the working class and the peasantry under the leadership of the working class is directed against the exploiting classes, and is the supreme principle of the dictatorship of the proletariat. The consolidation of the power of the proletariat and the construction of a socialist economy are impossible without this alliance.

The dictatorship of the proletariat is a continuation of the class struggle of the proletariat in new conditions and in new forms, against internal exploiters and against the aggressive

forces of capitalist countries. "The dictatorship of the proletariat is a persistent struggle—bloody and bloodless, violent and peaceful, military and economic, educational and administrative—against the forces and traditions of the old society." (Lenin, "'Left-Wing' Communism, an Infantile Disorder", *Selected Works*, 1950, English edition, vol. II, Pt. 2, p. 367.)

The dictatorship of the proletariat has three basic features, corresponding to the problems involved in building socialism. It means the use of the power of the proletariat, in the first place to crush the exploiters, defend the country and consolidate its links with the proletarians of other countries; secondly, to detach once and for all the working people and exploited masses from the bourgeoisie, and to consolidate the alliance of the proletariat with these masses so that they can be drawn in to the work of building socialism; thirdly, to build the new socialist society.

As a political superstructure, the dictatorship of the proletariat is born of society's fully-matured economic need of a transition from capitalism to socialism. But having come into being, it becomes itself a most powerful force, the instrument for the building of socialism. It ensures the elimination of the old capitalist basis, actively assists the socialist basis to arise and develop the victory of socialist forms of economy over capitalist forms.

Socialist forms of economy cannot emerge and develop spontaneously, of their own accord. They arise and develop as a result of the planned activity of the proletarian State and the creative activity of the working masses.

The proletarian State can successfully create the new basis only in so far as it relies on the objective economic law that the relations of production must necessarily correspond to the character of the productive forces, and to the new economic laws which emerge from the new economic conditions. Compared with capitalism, the dictatorship of the proletariat secures the creation of a higher form of social organisation of labour. This is the chief source of strength of the socialist structure and of its victory over capitalism.

The forms of the proletarian State can vary. "The transition from capitalism to communism certainly cannot but yield a tremendous abundance and variety of political forms, but the essence will inevitably be the same: the *dictatorship of the*

proletariat." (Lenin, "The State and Revolution", *Selected Works*, 1950, English edition, vol. II, Pt. 1, p. 234.)

This basic tenet of Marxism-Leninism has been wholly confirmed both by the historical experience of the U.S.S.R., where the form of the dictatorship of the proletariat discovered by Lenin—Soviet power—has established itself, and also by the subsequent historical experience of those countries where the dictatorship of the proletariat takes the form of people's democracy.

Guidance of the whole process of planned construction of a socialist economy, in countries of the dictatorship of the proletariat, belongs to the Communist (workers') parties. These parties, equipped with the theory of Marxism-Leninism and a knowledge of the laws of economic development of society, organise and guide the masses of the people to the solution of the problems of building socialism.

Socialist Nationalisation

The development of capitalism prepared the essential prerequisites for the socialisation of large-scale machine industry, mechanised transport, the banks, etc. The proletarian State, at the very outset of the transitional period, carries out the nationalisation of large-scale capitalist production.

Socialist nationalisation is the revolutionary alienation of the property of the exploiting classes by the proletariat and its conversion into State, socialist property—the property of the whole people. Socialist nationalisation leads to the elimination of the basic contradiction of capitalism—the contradiction between the social character of production and the private capitalist form of appropriation. As a result of socialist nationalisation the relations of production in industry are brought into accord with the nature of the productive forces, and this provides scope for their development.

Socialist nationalisation in the first place does away with the capitalist ownership of the chief means of production and thereby abolishes the economic domination of the bourgeoisie; in the second place it provides the proletarian dictatorship with an economic base, by transferring the *commanding heights of the national economy*, that is the key branches of the economy, to the working people. Social ownership of the means of production,

as the basis of socialist production-relations, is established in these branches.

The nationalisation of large-scale industry, as the leading branch of the national economy, is of decisive importance for socialist construction. At the same time the banks, railways, merchant marine and communications, large-scale enterprises of internal trade and all foreign trade are nationalised. With the nationalisation of the banks the bourgeoisie lose one of their main instruments of economic domination, and the proletarian State acquires a centralised and extensive economic apparatus which, after its revolutionary refashioning, is utilised for the building of socialism. The nationalisation of foreign trade is essential to a country building socialism in order to secure its economic independence of the capitalist world.

Because of the urgent need to abolish the survivals of serfdom in the anachronistic system of large landowning, the proletarian State immediately *confiscates* the estates of the big landowners together with their cattle and implements. The bulk of the confiscated land is transferred to the working peasantry, while a small part is organised into large-scale State agricultural enterprises.

Nationalisation of the land, that is, the abolition of private ownership of land, and its conversion into the property of the proletarian State, is one of the most important measures of the socialist revolution. The question of the carrying out of the nationalisation of *all* the land is decided by the proletarian authority in accordance with the concrete conditions of each country. In Russia, where peasant traditions of private ownership of land were weaker than in the West, the Soviet Government in accordance with the demands of the peasant masses nationalised the whole of the land at the outset of the revolution. Hence absolute rent disappeared. The Soviet peasantry for the first time in history acquired the land for use without payment, from the hands of the proletarian revolution. In those countries where small peasant private ownership has existed for a long period, and where the peasantry accordingly has a stronger tradition of private ownership, the working class does not, on taking power, nationalise the whole of the land at the beginning of the revolution. In these countries only a part of the land, which has been confiscated from the big landowners, is nationalised and formed into a State fund. The

bulk of the confiscated land becomes the private property of the peasantry. The question of nationalising the whole of the land is settled in practice in the course of the socialist reconstruction of agriculture.

In the first months of the great October Socialist Revolution, after the bourgeois State apparatus had been broken, the means of production and other wealth were nationalised, and taken from the landowners and big capitalists without compensation.

The Decree on Land was issued on October 26 (November 8), 1917. The lands belonging to the landowners, bourgeoisie, imperial family, churches and monasteries, were confiscated, alienated without compensation. The right to private ownership of land was abolished for ever. The whole of the land together with its minerals, woods and waters became State property (the possession of the whole people). The purchase and sale of land was forbidden. The peasantry received free use of more than 400 million acres of new lands in addition to the land it disposed of before the revolution. It was freed from rent payments to the landowners and also from expenditures on land purchase, amounting in all to more than 700 million gold roubles (about £75 millions) annually. The nationalisation of the land was the basis for the abolition of the class of landowners. It meant the complete eradication of the remnants of serfdom. Thus, in passing, the socialist revolution finally completed the tasks of the bourgeois-democratic revolution. The nationalisation of the land did not yet in itself create socialist relations of production in the countryside since, although the land become national property, it continued to be privately used. It was, however, of great importance for the building of socialism. Nationalisation of the land strengthened the economic basis of the dictatorship of the proletariat and improved the economic condition of the working peasantry. It paved the way for the movement of the peasantry later on along the path of socialist development.

By way of a transitional measure towards general nationalisation of capitalist concerns, and in order to obtain a degree of regulation of their activities, the Soviet Government introduced *workers' control*, that is, supervision by the body of workers in these concerns of production, trade and finance. In December 1917 *the banks were nationalised*. The Soviet Government annulled all loans acquired by the Tsarist and Provisional Governments from both foreign and native capitalists. Foreign trade was declared a State monopoly, and imports and exports were taken from the hands of private individuals and transferred to State bodies. *The monopoly of foreign trade*, introduced by the Soviet Government, was a firm barrier protecting the country from the economic aggression of the imperialists who were striving to enslave it and turn it into a colony. *The railways* and means of *communications*, *the mercantile*

marine and large river fleets became the property of the whole people. The Soviet Government *nationalised industrial concerns* by means of confiscation without compensation on an ever-increasing scale. The nationalisation of large concerns in all sectors of industry, was proclaimed in June 1918.

The nationalisation of large-scale industry, the banks, transport and foreign trade meant that the Soviet Government had undermined the economic power of the bourgeoisie and had taken over the key positions of the national economy.

Capitalist relations of production were replaced by socialist relations in the nationalised concerns. As social property, the means of production ceased to be capital. The exploitation of man by man was abolished. A new socialist labour discipline was introduced and socialist emulation was born among the workers. Socialist principles of management of production, combining one-man management with the creative activity of the working masses, were gradually established.

Overcoming the resistance of the bourgeoisie and the wrecking and sabotage of bourgeois specialists, and in determined struggle with disorganising petty-bourgeois influences, the Soviet Government began to organise public accounting and supervision of production and distribution.

The Economic and Class Structure in the Transitional Period. The Alliance of the Working Class and the Peasantry

With the nationalisation of large-scale industry, transport, the banks, etc., the socialist form (sector) of economy arises. But in the transitional period, alongside the socialist structure based on the social ownership of the means of production, there are still forms (that is, types of economy) inherited from the past and based on private ownership. This means that the economy of the transitional period has a mixed character.

As Lenin pointed out, there were, in the transitional period in the U.S.S.R., the following five forms of economy:

(1) Patriarchal peasant economy.
(2) Petty commodity production.
(3) The private economy of capitalism.
(4) State capitalism.
(5) Socialist economy.

Patriarchal peasant economy, based on personal labour, was a small-scale and largely natural economy. In other words, it produced almost exclusively for its own needs.

Petty commodity production was based on personal labour and connected to a greater or lesser degree with the market. This was primarily the middle-peasant economy, producing the bulk of marketed grain, as well as handicraft production without the use of hired labour. Petty commodity economy embraced the bulk of the population for a considerable part of the transitional period.

The private economy of capitalism was represented by the most numerous of the exploiting classes—the kulaks as well as by the owners of non-nationalised (mainly small and middling), industrial concerns and by traders. The capitalist concerns used hired labour, labour-power was a commodity, exploitation existed and surplus-value was appropriated by the capitalists.

State capitalism took the form mainly of concessions granted by the Soviet Government to foreign capitalists, and of certain State concerns rented to capitalists. Under the dictatorship of the proletariat, State capitalism was essentially different from that existing under the domination of the bourgeoisie. Under the dictatorship of the proletariat, it is a form of economy which is strictly limited by the proletarian authority and is utilised by it in the struggle with petty-bourgeois disorganising influences and in the building of socialism. State capitalism occupied only a very small place in the economy of the U.S.S.R.

Socialist economy comprised, in the first place, the factories, mills, transport, banks, State farms, trading and other concerns belonging to the Soviet State. In the second place, it included the co-operatives—consumer, supply, credit and producer, including their highest form, the collective farms. The basis of socialist economy was large-scale machine industry. At the very outset of the transitional period, socialist economy, as the most advanced of these economic forms, began to play a leading role in the economy of the country.

In the socialist sector of the economy, labour-power ceased to be a commodity, labour lost the character of hired labour and became labour for the worker himself, for society. Surplus-value disappeared. The transition to planning of the work of nationalised concerns, first in particular industries and subsequently throughout the whole of the State sector, was gradually

achieved. As a result of the establishment of social ownership of the means of production, the output of State concerns began to accrue to the State, that is to the whole of the working people, instead of the capitalists.

The existence of all five of these forms of economy is not inevitable for every country building socialism. But, as Lenin taught, and as has now been confirmed by historical experience, there are the following main forms of social economy in every country during the transitional period from capitalism to socialism: socialism, petty commodity production, capitalism. To these forms there correspond the following classes: the working class, the petty bourgeoisie (particularly the peasantry), and the bourgeoisie. The main features of the economy of class relationships, and consequently also of the basic economic policy in the transitional period, are common to all countries. This does not exclude but on the contrary presupposes the existence of specific peculiarities in each country.

Compared with their position under capitalism, the position of the classes in the transitional period is fundamentally changed.

The working class, from being an oppressed class under capitalism, becomes the ruling class, holding the reins of power and owning, in common with all the working people, the means of production which have been socialised by the State. The material conditions of the working class steadily improve, its cultural level rises.

The peasantry, the poor and middle peasant masses, obtain from the State land, emancipation from the yoke of the landowners, protection from the kulaks, and all-round economic and cultural assistance. As a result of the October Revolution and the assistance of the Soviet Government, the middle and poor peasantry were already producing about 65 million tons of grain in 1926–7, compared with 40 million tons before the Revolution.

Small-scale peasant commodity production inevitably gives birth to capitalist elements: class differentiation of the peasantry into poor peasants and kulaks takes place. But in the transitional period the character of this process is not the same as under capitalism. Under capitalism the poor peasants and kulaks increase in numbers, while the middle peasantry decrease: in their mass they become impoverished and swell

the ranks of the poor peasantry and the proletariat. During the transitional period, owing to the new conditions of development of peasant economy, the proportion of middle peasants increases in comparison with the pre-revolutionary period, while the number of poor peasants and kulaks decreases. In the U.S.S.R., during the transitional period before the main mass of peasants began to take the path of socialism, the total number and proportion of middle peasants increased, as compared with the pre-revolutionary period, at the expense of a decrease in the total number and proportion of the poor peasants, a part of whom rose to the level of the middle peasants. At the same time the total number and proportion of kulaks considerably decreased, compared with the pre-revolutionary period, the growth of the kulaks that took place in some years of the transitional period being considerably less than under capitalism. The middle peasant became the central figure in agriculture.

Following the October Revolution, already in 1918, the middle peasant predominated. This was because the peasants had received without payment the land and part of the cattle and stock of the landowners. In 1918 the kulaks were partially expropriated, being deprived of 125 million acres of land which were given to the poor and middle peasants. In 1928–9 peasant households were divided as follows: 35 per cent poor peasants, 60 per cent middle peasants and 4–5 per cent kulaks.

The Soviet Government was guided in its attitude towards the peasantry during the transitional period by Lenin's formula: a firm alliance with the middle peasant, reliance on the poor peasant and implacable struggle against the kulak. Lenin taught that the working class, in leading the peasantry, must always distinguish the two sides in every peasant—the toiler and the private owner.

The middle peasant has an essentially two-fold character: as a toiler he gravitates towards the proletariat, but as a small owner towards the bourgeoisie. Both the bourgeoisie and the proletariat strive to win the mass of the middle peasantry to their side. In doing so, the working class addresses itself to the fundamental interest of the peasant as a toiler, while the bourgeoisie tries to utilise his private interests. During the transitional period, particularly while the existence of the peasantry is based on private ownership and petty commodity production,

there are certain non-antagonistic contradictions between the working class and the peasantry centring, for example, around prices and tax scales. But these contradictions are not fundamental. The interests of the working class and the working masses of the peasantry coincide on fundamental questions. Both classes are deeply interested in putting an end to exploitation and in the victory of socialism. This is the essence of the firm alliance of the two friendly classes—the working class and the peasantry.

The principle of the alliance of the working class and the peasantry, under the leading role of the working class, is the foundation of socialist construction. "The most important *political* task of the party," it was stated in a resolution at the 12th Congress of the R.C.P.(B), "determining the whole outcome of the revolution, is to *defend and develop*, with the greatest care and attention, *the alliance of the working class and the peasantry*". (*The C.P.S.U. in Resolutions and Decisions of its Congresses, Conferences and Central Committee Meetings*, 7th Russian edition, vol. 1, pp. 682–3.)

A firm alliance between the working class and the peasantry is essential for correct economic relations between town and country, between industry and agriculture, for the growth of agriculture and its socialist transformation. The elimination of capitalist forms of economy and the victory of socialism can only be assured on the basis of the alliance of the working class and the peasantry.

The main classes in the transitional period are the working class and the peasantry.

The bourgeoisie after losing political power and the principal means of production are no longer one of the main classes of society. The big capitalists and a considerable section of the urban middle bourgeoisie are deprived of the means of production at the outset of the transitional period. But there still remains a section of the urban bourgeoisie, as well as the rural bourgeoisie, the kulaks. The bourgoisie still retains considerable strength for a number of years during the transitional period. This is explained by the inevitable, spontaneous growth of capitalist elements out of petty commodity economy, and by the impossibility of immediately replacing capitalism by socialism in all branches of the economy. The bourgeoisie, even after losing its domination, retains in some degree its monetary and

material resources, and its ties with a considerable section of the old specialists. It relies on the support of international capital.

The basic contradiction of the economy of this period is between socialism—which has been born but is still weak in the early stages, and to which the future belongs—and dethroned capitalism, which is still at the outset strong, with roots as yet in petty commodity production, but represents the past. The struggle between socialism and capitalism, around the question "who will beat whom", develops in all spheres of economic life during the transitional period. There are antagonistic and irreconcilable contradictions between the working class and the bulk of the peasantry on the one hand, and the bourgeoisie on the other. In the transitional period the policy of the proletarian State is first to restrict and squeeze out the capitalist elements, and subsequently to eliminate them completely. The sharpening of the class struggle of the proletariat and the working masses against the bourgeoisie, whose opposition increases as socialist construction expands, is a law of development in the transitional period.

The Appearance of the Economic Laws of Socialism

To the extent that the socialist sector takes over the key positions of the national economy, the capitalist forms of economy and their laws of development lose their dominating position in the national economy at the very beginning of the transitional period. The development of the national economy ceases to be governed by the operation of the basic economic law of modern capitalism. The operation of the law of surplus-value only extend to the capitalist sector of economy and becomes increasingly restricted.

New economic laws, inherent in socialist production relations arise, develop and gradually extend the sphere of their operation, on the basis of the new economic conditions.

The basic economic law of socialism emerges and begins to operate with the formation and development of the socialist economy. This finds expression, in the first place, in a radical change in the aim of production. In the socialist sector, production is carried on, not in order to extract capitalist profit, but for the satisfaction of the material and cultural needs of

the working people and for the construction of socialism. Secondly, as socialist relations of production are strengthened and extended, the conditions are created for achieving this aim by an uninterrupted and rapid growth of industry and extensive introduction of modern technical methods. The development of industry ceases to be cyclic in character, economic crises of overproduction cease to occur.

As long as the petty commodity and capitalist sectors exist in the economy alongside the socialist sector and the problem of "who will beat whom" is still not settled, the sphere of operation of the basic economic law of socialism is restricted. It operates within the bounds of the socialist sector. But as the socialist sector plays a leading role, and its share in the economy of the country constantly increases, the basic economic law of socialism begins to exercise an ever-increasing influence on the development of the entire national economy.

The Soviet State in its economic policy relied on this law, developing socialist production, introducing modern techniques in all branches of the economy and striving for a systematic improvement of the living standards of the working people, within the limits imposed by the difficult conditions of the transitional period.

Social ownership of the enterprises in the socialist sector makes its planned development both possible and necessary. Based on socialist relations of production, the economic *law of planned (proportional) development of the national economy* emerges and gradually begins to operate during the transitional period. This law calls for the planned management of the economy and the establishment by planning of such proportions between branches of the economy as are necessary for the victory of socialism and for the satisfaction of the growing needs of society. The law of planned development of the national economy begins to fulfil the role of the regulator of production in the socialist sector and exerts an ever greater determining influence on proportions throughout the national economy. At the outset the scope for the operation of this new economic law in the U.S.S.R. was narrow, since the socialist sector embraced only the smaller part of the national economy. The Soviet Government was only beginning to master the techniques of planning. As the socialist sector developed, the law of competition and anarchy of production lost its validity and there was

constantly increasing scope for the operation of the law of the planned development of the national economy.

The operation of the law of value in relation to labour-power ceases in the socialist sector. Instead there emerges and begins to operate, on the basis of the new relations of production, *the law of distribution according to work*, in accordance with which each worker must be paid according to the amount of labour he has expended.

Since commodity production and circulation still exists, so also does the *law of value*. But thanks to the socialisation of the principal means of production and the appearance of the economic laws of socialism, the sphere of commodity production and of the law of value is limited, and they begin to play a fundamentally different part from their part under capitalism.

The law of value operates within fixed limits as a regulator of production in the petty commodity and capitalist sectors of the economy. But it is not the regulator of production in the socialist sector. The law of the average rate of profit ceases to operate in the socialist sector. Capital investments in this sector are made on the basis of the law of the planned development of the national economy.

The proletarian authority increasingly takes hold of commodity production, the law of value, trade and monetary circulation, and uses them to develop socialist forms of economy, to strengthen the economic connections between industry and peasant economy, and in the struggle with the capitalist elements. Basing himself on Lenin's proposition concerning the new role of trade and money in the transitional period, Stalin pointed out:

> "The point is not at all that trade and the monetary system are methods of 'capitalist economy'. The point is that the socialist elements of our economy, in fighting the capitalist elements, master these methods and weapons of the bourgeoisie for the purpose of overcoming the capitalist elements that they *successfully* use them *against* capitalism, use them *successfully* for the purpose of building the socialist foundation of our economy. Hence, the point is that, thanks to the dialectics of our development, the functions and purpose of these instruments of the bourgeoisie change *in principle*, fundamentally, change in favour of socialism, to the

detriment of capitalism." (Stalin, "Reply to the Discussion on the Political Report of the Central Committee to the XIVth Congress of the CPSU(B)," *Works*, vol. VII, p. 379.)

The Bases of Economic Policy in the Transitional Period Between Capitalism and Socialism

Socialism cannot be built without a correct assessment of the objective economic conditions of the transitional period, and of the economic laws which arise on the basis of these conditions. The policy of the Communist party of the Soviet Union and of the Soviet State was based on Lenin's plan for building socialism, relied on economic laws, and took into account the real balance of class forces.

Lenin's teachings on the victory of socialism in one country were of the greatest importance for building socialism in the U.S.S.R. They equipped the party and the working class with a clear perspective and confidence in the triumph of the idea of scientific socialism.

Two aspects of this question have to be distinguished, the internal and the international. The *internal* aspect of the question concerns the mutual relations of classes within the country. The Communist Party and the Soviet State based themselves on the idea that the working class can overcome the contradictions existing between itself and the peasantry, strengthen the alliance and draw the peasant masses into the building of socialism. The working class in alliance with the peasantry is fully capable, after breaking capitalism *politically*, of also overcoming its bourgeoisie *economically* and, having eliminated the exploiting classes, building socialist society. The *international* aspect of the question concerns the relations of the country of proletarian dictatorship with the capitalist countries. In conditions of the co-existence of two opposite systems—socialism and capitalism—there is still a danger of armed aggression against the land of socialism by the hostile imperialist Powers. This contradiction cannot be resolved by the forces of one country of proletarian dictatorship alone. Therefore the victory of socialism can only be final when the danger of intervention and restoration of capitalism by aggressive imperialist Powers will have disappeared.

An essential condition for the success of socialist construction

in the U.S.S.R. was the routing of the Trotskyist and Bukharinist restorers of capitalism, who propounded theories calculated to disarm the working class, to the effect that the construction of socialism in one country was impossible, and that Russia was "not ripe" for socialism because of her technical and economical backwardness.

The Communist Party and Soviet State based themselves on Lenin's propositions that the U.S.S.R. had everything necessary and adequate for the complete construction of socialism, and that the technical and economic backwardness of Russia could be completely overcome under the dictatorship of the proletariat. History has fully confirmed the truth of Lenin's propositions.

Fundamental in Lenin's plan for building socialism in the U.S.S.R. was the idea of the creation of a powerful socialist industry, as the material basis of socialism and as the prerequisite for the gradual transition from small peasant farming to large-scale collective production, by way of co-operation. The State plan for the electrification of Russia, the *Goelro Plan*, adopted in 1920, was of primary importance in Lenin's programme for building socialism. This was the first perspective plan for the development of the national economy in the history of mankind, and provided for the creation of the productive and technical basis of socialism within ten to fifteen years.

> "The victory of socialism over capitalism and the consolidation of socialism may be regarded as ensured only when the proletarian State, having completely suppressed all resistance on the part of the exploiters and secured complete stability for itself and complete obedience, reorganises the whole of industry on the basis of large-scale collective production and on a modern technical basis (founded on the electrification of the whole of national economy). This alone will enable the towns to render such radical assistance, technical and social, to the backward and scattered rural population as will create the material basis for enormously raising the productivity of agriculture, and of agricultural labour in general, thereby stimulating the small tillers of the soil by the force of example and in their own interests to adopt large-scale, collective mechanised agriculture." (Lenin, "Preliminary Draft of Theses on the Agrarian Question", 1920", *Selected Works*, 1950, English edition, vol. II, Pt. 2, pp. 458–9.)

Lenin provided the basis for the path of the transition of the peasantry to socialist lines and the new role of co-operation in the socialist reconstruction of petty commodity production.

Lenin's plan for building socialism presupposed all-round development of the economic links between State industry and the peasant economy. From the character of small peasant economy, it follows that the vitally necessary form of economic link with the towns for the peasants is that of exchange through purchase and sale. During the transitional period the trade bond between State industry and the small peasant economy is an economic necessity.

Consequently the existence of peasant petty commodity production in the transitional period necessitates the use of the market and a money economy in the building of socialism.

As early as the spring of 1918 the Soviet Government began to organise the exchange of goods with the countryside by means of purchase and sale. Preparation began for a monetary reform. But because of foreign intervention the whole economy had to be turned to the service of the front, in conditions of extreme shortage of material resources. Intervention greatly intensified the ruin of the country which had resulted from the first world war. The Soviet Government did not have manufactured goods to exchange for agricultural produce, supplies of which were also considerably reduced. Procurement of agricultural produce for the army and for the town by way of purchase and sale was not possible. Hence the necessity arose of *food surplus appropriation*, that is, the requisitioning of all the peasant food surpluses by the State. In this way objective conditions compelled the Soviet Government to introduce the policy known as "War Communism".

Besides the food-surplus appropriation system, which was occasioned by dire necessity and by the need to supply the army with bread and to save the working masses from starvation, the policy of *war communism* presupposed the carrying through of a number of other measures. Because the State lacked commodity resources, trade in essential products was forbidden so as to prevent them falling into the hands of speculators. Consumer products were rationed in very small quantities in the towns. A class principle of distribution was observed and in addition, the size of the ration depended on the arduousness of work and the importance of the enterprise. Universal labour service was introduced. The bourgeoisie was obliged to take part in socially useful labour. Wartime

conditions forced the Soviet Government to take over not only large-scale and middle-size industry, but also a considerable part of small-scale industry. Because of the shortage of resources, a system of rigidly centralised supply-in-kind was introduced in industry, subordinated to the priority of serving the front. Concerns acquired and delivered products by requisition, without money payment and without any economic independence. All this made it impossible to apply business accounting methods such as would ensure that the enterprises paid their way and worked at a profit. The national economy of the U.S.S.R. reached an extremely low ebb as a result of the imperialist and civil wars. By 1920 large-scale industrial production had fallen to almost one-seventh of the 1913 level, while agricultural production had been approximately halved. Masses of rapidly devalued paper money were issued to cover State expenditure.

The workers in the factories, just as the soldiers in the Red Army at the front, displayed mass heroism. Forms of emulation such as "Communist Saturdays" (*subbotniks*) assumed great importance at that time. The working class acquired experience in administering production.

During the foreign intervention and the civil war, the *military and political alliance* of the working class and the peasantry was formed and consolidated. It served to unite the efforts of the workers and peasants in repulsing the onslaught of alien would-be conquerors and White Guards, and in defending their motherland, the workers' and peasants' State. The Soviet Government gave the peasantry land and protection from the landowner and kulak. The peasantry gave the working class food supplies through the surplus appropriation system. This was the basis of the military and political alliance of the workers and peasants under "War Communism".

"War Communism" was inevitable in the given historical conditions, those of civil war and economic breakdown. But "War Communism" with the food appropriation system and prohibition of trade deprived the peasants of material interest in production: it was incompatible with the economic bond between town and country. The proletarian State can therefore avoid "War Communism" in the absence of intervention and economic ruin resulting from a prolonged war. This has been confirmed by the experience of the People's Democracies.

Having ended foreign intervention and civil war, the Soviet Government moved on, in the spring of 1921, to the New Economic Policy, so named to distinguish it from the policy of "War Communism". The main principles of the New Economic Policy had already been worked out by Lenin in the spring of 1918. But their application was interrupted by

intervention, and the Soviet Government was only able to proclaim this policy again, and to consistently carry it out three years later.

The New Economic Policy of the Soviet Government in the transitional period was an economic policy for building socialism while utilising the market, trade and monetary circulation. The essence of this policy was an *economic* alliance of the working class and the peasantry, which was necessary in order to draw the peasant masses into socialist construction.

Expounding the tasks of N.E.P., Lenin said at the beginning of 1922:

> "Link up with the peasant masses, with the rank and file toiling peasants, and begin to move forward, infinitely more slowly than we dreamed, but in such a way that the entire mass will actually move forward with us. If we do that we shall in time get an acceleration of this movement such as we cannot even dream of now." (Lenin, "Political Report of the Central Committee to the 11th Congress of the R.C.P.(B), *Selected Works*, 1950, English edition, vol. II, Pt. 2, pp. 636–7.)

The first task of N.E.P. was the restoration of the economy. A start had to be made with the revival of the economic interest of the working peasantry in the swift recovery of agriculture, so as to assure the urban population of provisions, and industry of raw materials. On this basis, State industry was to move forward and become closely linked with agriculture, squeezing out private capital. Subsequently, when sufficient resources had been accumulated, the problems of creating a powerful socialist industry capable of reorganising agriculture on socialist lines, had to be solved, and a decisive offensive had to be opened against the capitalist elements, so as to eliminate them completely.

The New Economic Policy allowed for capitalism within certain limits while retaining the key positions in the hands of the proletarian State. It allowed for the struggle of the socialist elements against the capitalist elements, for the victory of the former, and for the elimination of the exploiting classes and the creation of the economic basis of socialism.

Trade was the main link at the beginning of N.E.P. which it was necessary to grasp, in order to drag forward the whole

chain of economic construction. The end of the war made it possible to replace the requisitioning of food surpluses by the *food tax*. The food tax, the scales of which were laid down in advance of the spring sowing, was smaller than the assessments under the requisitioning scheme, and left the peasants with a surplus of grain and other products for free sale on the market and for exchange for industrial goods. Lenin underlined the urgent need to learn to trade, to enable socialist industry to satisfy the needs of the peasantry.

The need for commodity circulation between town and country determined the development of trade links in industry itself, and necessitated an improvement in the monetary economy of the country. With the adoption of the new economic policy, supply-in-kind within industry was abolished. State concerns were put on a basis of economic accounting and began increasingly to work on a self-supporting and profitable basis. Consumer rationing was replaced by free trade. The monetary reform was completed in 1924 and provided the country with a stable currency.

Basing itself on the law of the planned development of the national economy, the Soviet Government gradually restricted the operation of the law of value and commenced, step by step, to plan State industry.

Within the confines of the State sector, direct planning was carried out, setting production targets down to factory levels. Fixed prices were established for the commodities produced by State enterprises. Such planning was not possible in respect of the peasant economy. The State influenced the peasant economy by means of indirect economic regulation—through trade, supply, purchases, prices, credit and finance. These economic instruments were used to strengthen the bond with the peasant economy as well as the leading role of socialist economy. The operation of the law of value on the private market showed itself in the free formation of prices and the retention of competition. Speculation existed, and capitalist elements enriched themselves at the expense of the working people. By concentrating in its hands a growing quality of commodities, and constantly extending its purchases of agricultural produce, the Soviet State began, in stubborn struggle with the capitalist elements, to lay down the main prices of grain and other important commodities, in every possible way

limiting the free play of market prices. The regulating role of the State, in relation to the private market, constantly increased.

The 11th All-Russian Conference of the R.C.P.(B) posed the task:

> "Recognising its existence and taking account of its laws, the market must be mastered. Regulation of the market and monetary circulation must be taken in its own hands with systematic economic measures which have been strictly conceived and based on an exact assessment of market processes." *The C.P.S.U. in Resolutions and Decisions of its Congresses, Conferences and Central Committee Meetings*, seventh Russian edition, Pt. 1, p. 588.)

The Communist Party and the Soviet State coped successfully with this task.

With the aid of socialist industry, the financial and credit system, State trade, and the co-operatives, the Soviet Government in the course of an intense class struggle carried out a consistent policy of restricting and squeezing out the capitalist elements—manufacturers, kulaks and traders. Taxation of the capitalists was increased and their opportunities for using the means of production and hired labour were reduced. This meant that the operation of the law of surplus-value was being increasingly restricted. Whereas during the first years of N.E.P. there was to some degree a revival and growth of the capitalist elements, their role in the economy soon began to decline with increasing rapidity.

The use of the personal material interests of the workers in the development of socialist production was essential for the growth of State industry. Basing itself on the law of distribution according to work, the Socialist State built up the wages of manual and clerical workers more and more in accordance with the quantity and quality of labour expended by each worker. This encouraged a steady increase in the productivity of labour.

The economy of the transitional period underwent a two-fold process. On the one hand, for a certain time and within certain limits, there was a free growth of capitalist elements. On the other hand there was a steady and far more rapid planned growth of the socialist elements which determined the course of the entire national economy.

The share of the private sector accounted for one-quarter of industrial production in the first years of N.E.P. but had fallen to

one-tenth by 1929. Whereas the share of private trade in retail turnover amounted to about three-quarters in 1921–2, by 1926 State and co-operative trade was successfully squeezing out the private traders and had a firm hold of the main positions in retail turnover.

The revival of trade turnover and strengthening of the trade bond between town and country made possible a rapid restoration of the economy and the growth of socialist industry. Taking advantage of the superiority of socialist industry, the Soviet Government secured the restoration of the volume of output of large-scale industry to the 1913 level by 1926. Thanks to the varied help extended to the working peasantry by the Soviet Government, agricultural production exceeded the 1913 level by 1926.

With the restoration of industry and agriculture the transition to the socialist reconstruction of the entire national economy began. As industrial and agricultural output increased, the material and cultural level of the working people was raised.

During the transitional period from capitalism to socialism the Soviet State and the working people of the U.S.S.R., led by the Communist Party, accomplished the following tasks in conformity with economic law. The key positions of the national economy were taken over through socialist nationalisation; the trade bond between socialist industry and the peasant economy was established and the supply of consumer goods to the countryside was organised; socialist industrialisation was carried out and a production bond of the town with the countryside, through the supply to it of advanced machine technique, was set up: agriculture was collectivised and the economic basis of socialism brought into being in the countryside.

With the consolidation of socialist relations of production in industry, extensive possibilities for socialist industrialisation of the country were opened up. By under-pinning agriculture with an advanced technical base, socialist industrialisation created at the same time the material foundation for the socialist collectivisation of the peasant economy. The objective necessity for industrialisation of the country and for collectivisation of agriculture springs from the law of the obligatory correspondence of relations of production to the character of the productive forces, and from the basic economic law of socialism. These laws call for the consolidation of socialist production relations throughout the national economy, in

agriculture as well as in industry. The productive forces can only acquire full scope for their development under these conditions. Socialist industrialisation of the country and collectivisation of agriculture ensure the victory of socialism throughout the national economy, the systematic growth of production and of the living standards of the people.

The New Economic Policy was the practical expression of Lenin's plan for building a socialist economy in the U.S.S.R., which was elaborated further in the works of Stalin and in the decisions of the Communist Party. The fundamental principles underlying the New Economic Policy in the U.S.S.R., serve as a guide to action for any country building socialism. However, the concrete forms of economic construction in particular countries must take account of the peculiarities of the development of each, and the circumstances in which the socialist revolution takes place. Lenin pointed out that:

> "Marx did not commit himself—or the future leaders of the socialist revolution—to matters of form, to methods and ways of bringing about the revolution; for he understood perfectly well that a vast number of new problems would arise, that the whole situation would change in the process of the revolution, and that the situation would change often and considerably in the process of revolution." (Lenin, "The Tax in Kind", *Selected Works*, 1950, English edition, vol. II, Pt. 2, p. 535.)

The construction of a socialist economy in the People's Democracies takes place in more favourable circumstances than was the case in the U.S.S.R., which was the only country building socialism. It first fell to the Soviet Union to open up the path for the transition to socialism. Today each of the People's Democracies is supported by the tremendous assistance of the whole camp of socialism, and can use the accumulated experience of the building of socialism in the U.S.S.R.

BRIEF CONCLUSIONS

(1) The great October Socialist Revolution for the first time in the history of mankind opened up the path to socialism. The historical inevitability of the proletarian revolution stems from the law of the obligatory correspondence of relations of

production to the character of the productive forces. A transitional period is necessary for the revolutionary transformation of capitalist into socialist society. The State in the transitional period is the dictatorship of the proletariat, taking the form of either Soviet power or a people's democracy. Socialist nationalisation of the principal means of production belonging to the exploiting classes brings about the creation of a socialist form of economy, embracing the key positions of the national economy.

(2) The main forms of the social economy in the transitional period are: socialism, petty commodity production and capitalism. The working class, the peasantry and the bourgeoisie are the corresponding classes. The main classes in the transitional period are the working class and the peasantry. The highest principle of the dictatorship of the proletariat is the alliance, directed against the exploiting classes, of the working class and the peasantry, under the leadership of the working class. The basic contradiction of the transitional period is that between growing socialism and dying capitalism. The restriction and squeezing out, and subsequent elimination of the capitalist elements is achieved in the course of an intense class struggle.

(3) During the transitional period, as the socialist sector grows and strengthens itself and capitalist elements are overcome, the economic laws of capitalism, which express relations of exploitation, quit the stage. The economic laws of socialism, on which the proletarian State relies, come into being and gradually extend the sphere of their operation. The law of value, trade, money and credit are used to an increasing extent by the proletarian authority to the detriment of capitalism and in the interests of socialism.

(4) The economic policy of the proletarian dictatorship in the transitional period is directed towards the victory of the socialist over the capitalist elements and the construction of a socialist economy, using commodity production and the market. This policy secures the economic bond between socialist industry and the peasant economy, as well as socialist industrialisation of the country and collectivisation of agriculture.

CHAPTER XXIV

SOCIALIST INDUSTRIALISATION

Large-scale Industry—The Material Basis of Socialism. The Essence of Socialist Industrialisation

Socialism can only be built on the basis of large-scale machine production. Only large-scale machine production both in town and country can ensure the victory of the socialist forms of economy over the capitalist forms, an uninterrupted growth of the productivity of labour and the improvement of the welfare of the working people.

Lenin wrote: "A large-scale machine industry that is also capable of re-organising agriculture is the only material basis that is possible for socialism." (Lenin, "Theses for the Report on Tactics of the R.C.P. at the 3rd Congress of the Communist International", *Selected Works*, 1950, English edition, vol. II, Pt. 2, p. 576.)

Capitalism developed large-scale industry and at the same time created the necessary material prerequisites for the proletarian revolution and the construction of socialism. But because of its inherent contradictions capitalism was unable to reconstruct all branches of the economy in all countries on the basis of large-scale machine production. The majority of countries, especially the colonial and dependent countries, lack an adequately developed large-scale industry. The capitalist countries have a numerous class of peasants carrying on a small-scale, personal, private economy based on manual labour and primitive technique. Yet the victory of socialism throughout the national economy cannot be secured without the reconstruction of all branches of production on the basis of modern techniques.

The most important part in large-scale industry is played by the branches producing the means of production—metals, coal, oil, machinery, equipment, building materials, etc., that is, *heavy industry*. Socialist industrialisation means, therefore, the priority development of heavy industry with its core, the engineering industry.

"The centre of industrialisation, the basis for it, is the development of heavy industry (fuel, metal, etc.), the

development in the last analysis of the production of the means of production, the development of our own engineering industry." (Stalin, "The Economic Situation of the Soviet Union and the Policy of the Party", *Works*, 1954, English edition, vol. VIII, p. 127.)

The engineering industry occupies a special place in the economy of a country. A developed engineering industry is essential for the re-equipment of all branches of the national economy with modern techniques—machinery, machine tools, appliances, apparatus and instruments—and is the most important source of technical progress.

Socialist industrialisation ensures a growing preponderance of the socialist forms of industry over the small commodity and capitalist forms. It creates the material basis for the development of socialist forms of economy, and the elimination of capitalist elements. It endows the socialist forms of economy with the technical superiority necessary in order to conquer completely the capitalist sector.

The development of heavy industry is the key to the socialist transformation of agriculture on the basis of modern machine techniques. In supplying agriculture with tractors, combines and other agricultural machinery, socialist industry serves as the foundation for the coming into being and development of these new productive forces in the countryside which are necessary for the victory of the collective farm system.

Socialist industrialisation increases the numerical and relative importance of the working class and heightens its leading role in society. It strengthens the basis of the dictatorship of the working class and of its alliance with the peasantry.

Socialist industrialisation ensures the *technical and economic independence* and defensive capacity of a country building socialism in the presence of a hostile capitalist world. The development of heavy industry provides the material foundation for producing modern weapons necessary to defend the country from the aggression of hostile imperialist States.

Accordingly, *socialist industrialisation* is such a development of large-scale industry, and in the first place of heavy industry, as will ensure the reconstruction of the entire national economy on the basis of modern machine techniques, the victory of socialist forms of economy, the country's technical and economic independence of the capitalist world, and its defensive capacity.

Socialist industrialisation is dictated by the demands of the law that the relations of production must necessarily correspond to the nature of the productive forces and by the demands of the basic economic law of socialism, by the necessity of ensuring the material prerequisites for the building of socialism, for uninterrupted growth of production and a steady improvement in the welfare of the people.

Socialist industrialisation was of vital importance for the U.S.S.R. Pre-revolutionary Russia, although it possessed a large-scale industry, was primarily an agrarian country. In the level of its industrial development, particularly of heavy industry, it was considerably behind than the main capitalist countries.

While occupying first place in the world in the size of its territory and third place in the size of its population (after China and India), Tsarist Russia stood fifth in the world for volume of industrial production, and fourth in Europe. Agricultural production in 1913 accounted for 57·9 per cent of gross production of large-scale industry and agriculture taken together, while industrial production accounted for 42·1 per cent. Heavy industry greatly lagged behind light industry. Many important branches of industry, producing machine-tools, tractors, automobiles and other items, were non-existent. Pre-revolutionary Russia was four times worse off for modern instruments of production than England, five times worse off than Germany and ten times worse off than America. Economic and technical backwardness made Tsarist Russia dependent on the developed capitalist countries. It was obliged to import a considerable part of its equipment and other means of production from abroad. Foreign capitalists were in command of the country's main branches of heavy industry.

The rule of the capitalists and landlords constantly increased Russia's dependence on the western imperialist Powers. A direct threat of loss of national independence hung over the country. The exploiting classes were incapable of abolishing Russia's age-long technical and economic backwardness. Only the working class could carry out this historic task. Already on the eve of the great October Revolution, Lenin was stressing that it was a question of life or death for Russia *to overtake and outstrip* the most highly developed capitalist countries, technically and economically.

"The result of the revolution has been that the *political* system of Russia has in a few months caught up with that of the advanced countries.

"But that is not enough. The war is inexorable; it puts the alternative with ruthless severity: either perish, or overtake and outstrip the advanced countries *economically as well*. . . .

"Perish or drive full-steam ahead. That is the alternative with which history confronts us." (Lenin, "The Impending Catastrophe and How to Combat it", *Selected Works*, 1950, English edition, vol. II, Pt. 1, p. 164.)

The level of development of the productive forces and particularly the existence of large-scale concentrated industry in pre-revolutionary Russia was sufficient for the victory of the proletarian revolution, for the establishment of Soviet Power —the most progressive political power in the world. However, for the creation of the economic basis of socialism, for the socialist transformation of small-scale backward agriculture and for the improvement of the living standards of the people, it was essential to end the age-long technical and economic backwardness of the country and to create a powerful heavy industry. Without a developed heavy industry our country would have been doomed to become an agrarian appendage of the more developed capitalist countries, to lose its independence and with it, all the conquests of the socialist revolution.

With the victory of the proletarian revolution in Russia, a contradiction arose between the most progressive political power in the world—Soviet power—and the backward technical and economic basis inherited from the past. The Soviet Government could not for long have maintained itself on the basis of a backward industry. Socialist industrialisation was necessary in order to overcome this contradiction.

Thus socialist industrialisation in the U.S.S.R. was an historical necessity, springing from the most vital and pressing needs of socialist construction.

The Communist Party and the Soviet State recognised this, and consistently put into effect a policy of socialist industrialisation. The 14th Congress of the Communist Party (1925) posed socialist industrialisation as its main task. In the decisions of the Congress it was stated:

"Economic construction must be carried out with a view to converting the U.S.S.R. from a country importing machinery and equipment into a country producing machinery and equipment, so that in conditions of capitalist

encirclement it will not be henceforth possible for the U.S.S.R. to be converted into an economic appendage of the capitalist world economy, and it will be an independent economic unit building itself up in the socialist way." (*The C.P.S.U. in Resolutions and Decisions of its Congresses, Conferences and Central Committee Meetings*, seventh Russian edition, Pt. 2, p. 75.)

The Rate of Socialist Industrialisation

The fundamental tasks of the socialist transformation of the country and of securing its independence required that industrialisation be carried out in the shortest possible period known to history.

The need for a high rate of industrialisation was occasioned by the external and internal circumstances of the Soviet Union, the first land of socialism in the world.

The *external* circumstances of development of the U.S.S.R. were conditioned by the presence of a hostile capitalist environment. The imperialist countries possessed a more powerful industrial base, and sought to destroy or at least to weaken the Soviet Union. The question of the rate of industrial development would not have been so acute if the Soviet Union had possessed the same developed industry as the advanced capitalist countries. Nor would this question have been so acute if there had been a dictatorship of the proletariat in other more industrially developed States as well. But the Soviet State was a technically and economically backward country and the only country with the dictatorship of the proletariat. In view of this a basis of advanced industry had to be brought into being at high speed.

The *internal* circumstances of development of the U.S.S.R. also demanded a high rate of industrialisation. So long as the Soviet country remained a land of small peasants, there remained within it a more stable economic base for capitalism than for socialism. In order to answer the question "who will beat whom", the scattered private property economy of the peasant had to be transformed in a historically short time, on the basis of collective labour and armed with modern techniques. Capitalism had to be deprived of its basis in petty commodity production. This task could not be carried out without the rapid development of heavy industry.

Stalin, in stressing the historical necessity for a high speed of socialist industrialisation, said: "We are 50–100 years behind the advanced countries. We must make good this distance in 10 years. Either we do it, or they crush us." (Stalin, "The Tasks of Business Executives", *Works*, vol. XIII, p. 39.)

The possibility of a high rate of socialist industrialisation was due to the advantages of the socialist economic system and the particular features of the socialist method of industrialisation.

The average yearly rate of growth of industrial production in the U.S.S.R. was about 20 per cent between 1929–37, while in the capitalist countries it averaged no more than 0·3 per cent during this period. The speed of industrial growth in the U.S.S.R. many times exceeded that of the main capitalist countries at the peak of their development. In the U.S.A., for example, the average yearly growth of industrial production was 1890–5 8·2 per cent, 1895–1900 5·2 per cent, 1900–5 2·6 per cent, 1905–10 3·6 per cent.

The Socialist Method of Industrialisation. Resources for Socialist Industrialisation

Only the *socialist method of industrialisation*, dependent on the new laws of socialism, can achieve the industrialisation of a country in the shortest historical time.

Industrialisation in the capitalist countries usually commences with the development of light industry. The turn of heavy industry only comes after a prolonged period of time.

This method of industrialisation was unacceptable for the Soviet country. It would have meant the destruction of the socialist revolution and would have converted the U.S.S.R. into a colony of the imperialist States. The Communist Party rejected the capitalist method of industrialisation and started the industrialisation of the country with the development of heavy industry.

Capitalist industrialisation took place spontaneously, as a result of the capitalist drive for profit. Socialist industrialisation is carried out on the basis of the law of the planned development of the national economy, for the purpose of building socialism and satisfying the growing needs of the working people. It could not be achieved if the regulator of production in the socialist sector were the law of value. The Soviet State laid down, in a planned way, such proportions in the allocation of labour and means of production to the different sectors as were

dictated by the needs of socialist industrialisation and secured priority to the development of heavy industry at a high speed. Under the 1st and 2nd Five-Year Plans, the Soviet State directed the bulk of capital investment not into light industry, despite its greater profitability, but into the enterprises of heavy industry, the construction of which was of decisive importance for the victory of socialism. The financial and credit system and foreign trade were used in the interests of industrialisation.

Capitalist industrialisation increases the exploitation and impoverishment of the working class and the peasantry, widens the gulf between town and country, and enslaves the colonial peoples. Socialist industrialisation, in accordance with the requirements of the basic economic law of socialism, provides a solid material foundation for the uninterrupted growth of production, using the most modern techniques. It puts an end to unemployment and increases the real wages of the workers.

Socialist industrialisation provides a basis for the progress of agriculture. It leads to the rise of the living standards of the peasantry, bringing town and countryside closer together, and strengthens the alliance between the working class and the peasantry. The Communist Party rejected the hostile aims of the Trotskyists, who proposed to industrialise by ruining the peasantry, and tried in this way to undermine the alliance of the working class and peasantry. Socialist industrialisation is a powerful factor in the economic and cultural development of the formerly backward national regions.

The socialist method of industrialisation steadily extends the internal market, and in this way creates a firm internal basis for industrial development. The direct interest of the workers and peasants in socialist industrialisation stems from all the foregoing.

The industrialisation of such a backward country as Russia was a difficult matter, since the creation of a powerful heavy industry required huge material and financial expenditures.

Alongside the merciless exploitation of the workers and peasants, an important role in the industrialisation of the capitalist countries was played by the influx of resources from without, from colonial pillage, war indemnities and enslaving loans and concessions. These methods of mobilising resources for industrialisation are incompatible with the principles of the socialist system. The Soviet Union had to find ways of

accumulating resources for heavy industry without enslaving loans from abroad, from internal sources alone, from the planned carrying out of socialist accumulation. *Socialist accumulation* is the utilisation of part of the national income for the expansion of socialist production. The accumulation of the necessary resources for building new factories necessitated the strictest economy. "We are exercising economy in all things," wrote Lenin, "this must be so, because we know that unless we save heavy industry, unless we restore it, we shall not be able to build up any industry; and without that we shall be doomed as an independent country." (Lenin, "Five Years of the Russian Revolution and the Prospects of the World Revolution. Report to the 4th Congress of the Communist International", *Selected Works*, 1950, English edition, vol. II, Pt. 2, p. 697.)

In carrying out the difficult task of accumulating resources for industrialisation, the Soviet State relied on the superiority of the socialist economy.

The expropriation of the landowners and capitalists made it possible to use for socialist industrialisation a considerable part of the resources which had formerly been appropriated by the exploiters and expended on parasitic consumption. Soviet power freed the country from huge annual payments abroad as interest on the Tsarist loans and as dividends to foreign capitalists on their investments in Russia. Before the revolution, 800–900 million gold roubles (£85–£95 millions) were expended annually in this way.

The Soviet peasantry got rid of rent payments to the landowners and considerable indebtedness to the banks. Since the peasantry was interested in the development of industry it was able to allocate a part of its resources for this purpose.

The incomes of nationalised industry, foreign trade, State internal trade and the banking system were the most important sources of finance for socialist industralisation. Their importance constantly increased with the growth of socialist industry.

Socialist industry has indisputable advantages over capitalist industry in ensuring the growth of accumulation. It is the largest and the most concentrated industry, being on a nation-wide scale, and is freed from the operation of the law of competition and anarchy of production. The planned direction of industry, the rational use of its resources, the labour enthusiasm of the working class and the rapid development of techniques

created conditions for an uninterrupted growth in the productivity of labour. As a result, socialist industry was enabled steadily to reduce the *cost* of production, that is, the expenditure of enterprises on the production and sale of their products, expressed in money terms.

One of the important advantages of socialist economy over capitalist is the concentration of the entire monetary accumulation of State and co-operative enterprises in the country, as well as the free resources of the population deposited in State credit institutions, and their planned use for industrial development. The Soviet State ensured the wise expenditure of accumulated resources on the most important requirements of industrialisation. It followed a policy of strictest economy, all-round simplification and cheapening of the State and co-operative apparatus, firmer cost-accounting, financial discipline and opposition to unnecessary expenditure of State resources.

All these sources of internal accumulation provided thousands of millions of roubles for industrialisation and made possible large-scale capital investment in industry, particularly in heavy industry.

In this way the Soviet Government successfully overcame the difficulties connected with the accumulation of resources for industrialisation.

Application of the socialist method of industrialisation meant a great gain in time, securing the creation of a first-class socialist industry in the shortest possible time and with a high rate of growth.

Capital Construction. The Mastery of New Techniques and the Problem of Cadres

The accomplishment of socialist industrialisation requires the expansion of capital construction, which was realised in the U.S.S.R. on a large scale. The building of new enterprises, on which more than half the total capital investments in industry was spent, played the chief role in the capital works.

The specific feature of socialist industrialisation in the U.S.S.R., which was determined by the historical conditions of the development of the first stage of socialism, was the need for the creation of *all* the basic branches of modern heavy industry in the shortest space of time. Scores of branches of

modern industry which did not exist in pre-revolutionary Russia, the automobile and tractor industries, the machine-tool industry, a number of chemical industries, the aviation industry, the production of modern agricultural machinery and high-grade steels, and many other industries which in the capitalist countries had been the result of a long period of historical development, were created in the U.S.S.R. during the years of the pre-war Five-Year plans. The basic equipment of the most important branches of heavy industry was created almost anew in a short space of time.

The building of new enterprises and reconstruction of those already operating were carried out through the use on a mass scale of the achievements of modern world technique. The new industrial enterprises were equipped with the latest machine-tools, lathes and apparatus. The process of technical reconstruction covered all branches of industry.

As a result of all this, during the years of the pre-war Five-Year plans, a powerful industry equipped with up-to-date machinery was created.

The basic production funds of all industry (production buildings and installations, machinery and equipment) in 1937 were 5·5 times greater than in 1928, while in the branches producing the means of production they were 7 times greater. During the Five-Year Plans thousands of factories and mills were put into operation. They included scores of giant plants of socialist industry; the Magnitogorsk and Kuznets metallurgical combines, the Dnieper hydro-electric station, the Stalingrad and Kharkov tractor works, automobile factories at Moscow and Gorky, the Urals and Kramatorsk heavy engineering factories, the ball-bearing factory in Moscow, the chemical combines at Stalinogorsk, Solikamsk and Berezniki, and numerous other enterprises. The new works began to occupy chief place in the total volume of industrial production. Already by 1937 more than 80 per cent of all production came from enterprises newly built or reconstructed during the first two Five-Year Plans.

During the first Five-Year Plan (1929–32) capital investment in industry amounted to 35·1 milliard roubles (in present-day prices) of which 30·1 milliard roubles were invested in heavy industry. During the second Five-Year Plan (1933–7) capital investment in industry amounted to 82·8 milliard roubles, of which 69·1 milliard roubles were directed into heavy industry. During the three and a half years of the third Five-Year Plan (1938–June 1941) 81·6 milliard roubles were invested in industry, of which 70·3 milliard roubles were invested in heavy industry.

The creation of numerous enterprises equipped with up-to-date machinery set a new, difficult task, that of providing industry with cadres of qualified workers and specialists capable of fully mastering and utilising this technical equipment. These cadres had to be created on a mass scale and in a short space of time.

The problem of supplying labour-power for socialist industry was decided by other means than in the conditions of capitalism, where the chief source of additional labour-power is the reserve army of unemployed. Unemployment was completely eliminated in the U.S.S.R. by the end of 1930, during the years of the first Five-Year Plan. The chief sources from which industry was provided with cadres were the natural increase in the urban population and the reserves of labour-power in the countryside, produced as a result of the new machinery with which agriculture was equipped and the resulting increase in the productivity of labour.

Socialist industrialisation required a systematic rise in the skill of the workers.

The personal interest of the masses in the development of socialist industry, the new character of labour and the growth in the technical efficiency of the workers was shown in the increased activity and creative initiative of the working class.

The task of training new cadres of production engineers and technicians presented itself in all its acuteness. The training of skilled workers in factory schools, and at various courses for production and technical training of new workers, was organised on a large scale. The Soviet State's planned organisation of industrial training and the interest of the working masses in raising socially-owned production accelerated and facilitated the mastery of new techniques. In this way the conditions for a rapid growth in the productivity of labour were created.

The working class had to create its own intelligentsia, capable of serving the interests of the people and taking an active part in socialist construction. During the first and second Five-Year Plans, the Soviet State developed a huge programme for training cadres, through its network of higher educational institutions and technical colleges, for industry and other sectors of the national economy.

Between 1928 and 1937 the number of manual and clerical workers in industry increased from 3·8 millions to 10·1 millions, i.e.,

2·7-fold. The number of skilled workers using the newest mechanical equipment grew considerably more rapidly than the working class as a whole. Between 1926 and 1939 the number of turners increased 6·8-fold, milling machine operators 13-fold, etc. The number of diploma engineers increased 7·7-fold.

The Conversion of the U.S.S.R. from a Backward Agrarian Country into an Advanced Industrial Power

The victory of socialist industrialisation in the U.S.S.R. was made possible because the Communist Party and the Soviet State based their policy on the laws of economic development and skilfully utilised the advantages of the socialist economy. As required by the task of building socialism and satisfying the growing material and cultural needs of the working people, industrial construction was developed on a gigantic scale. The programme of industrialisation of the country found its practical embodiment in the Five-Year Plans, which gave the Soviet people a clear perspective and proved a powerful force, mobilising the working people for the building of socialism.

During the first Five-Year Plan mass *socialist emulation* was developed, in the effort to fulfil and overfulfil the plans. The second Five-Year Plan was marked by the rise of the Stakhanovite movement. This was connected with the mastery of modern first-class techniques by the workers; it shattered the technically backward, low standards of output and replaced them with higher standards. The Stakhanovite movement was a new stage in socialist emulation. This emulation of the broad masses of the working class brought out the progressive role of the new socialist relations of production, as the chief and decisive force making for a great upsurge of the productive forces. Socialist emulation opened up enormous reserves for increasing the productivity of labour and speeding up the rate of industrialisation. Socialist emulation, widely developed, was the chief factor in the fulfilment of the first and second Five-Year Plans ahead of time.

An important part in the struggle to industrialise the country was played by the consistant application of the economic law of distribution according to work which combined the personal material interests of the working people with the interests of social production. Payment for work in accordance with its

quantity and quality, encouraged the growth of the productivity of labour, improvement in the skill of the workers and perfecting of production methods.

The successful fulfilment of the industrialisation programme changed the balance between industry and agriculture. While agricultural production increased, industrial production increased far more rapidly. This resulted in a sharp increase in the share of industrial production in the production of the country as a whole. Socialist industry was transformed into the decisive force of the national economy. The relative proportions of the branches producing the means of production and the branches producing consumer goods was altered. Production of means of production took the predominant place in the total volume of industrial production, and began to play a leading part in the development of industry and the economy of the entire country.

Engineering in the U.S.S.R. had reached a level of development where it was capable of producing within the country any machines that might be required. The Soviet Union had achieved technical and economic independence of the capitalist countries.

Between 1913 and 1940 production of large-scale industry in the U.S.S.R. increased nearly twelvefold. In volume of industrial production the Soviet Union already occupied, at the end of the second Five-Year Plan, first place in Europe and second place in the world. The U.S.S.R. also occupied second place in the world for volume of railway-freight turnover. The share of large-scale industry in gross output of large-scale industry and agriculture combined, had been raised from 42·1 per cent in 1913 to 77·4 per cent in 1937. In 1913 the share of means of production in gross output of all industry was 33·3 per cent and in 1940 more than 60 per cent. On the eve of the first Five-Year Plan, the U.S.S.R. imported approximately one-third of all its machinery. Already by 1932 less than 13 per cent was imported, and by 1937 only 0·9 per cent. The Soviet Union not only ceased to import automobiles, tractors, agricultural and other machinery from the capitalist countries, but even commenced to export them.

The rapid growth of Soviet industry made the large-scale socialist enterprise predominant in industrial production. In 1924–5 the share of the private sector in the U.S.S.R.'s industrial output amounted to 20·7 per cent. With the completion of the second Five-Year Plan private industry was finally eliminated. The socialist system had become the only system in the industry of the U.S.S.R.

Socialist industrialisation raised the material and cultural level of the working people. The building of heavy industry provided a basis for the technical reconstruction and rapid development of the sectors producing consumer goods—agriculture, the light and food industries. Capital investment in the consumer industries was almost trebled in the second Five-Year Plan as compared with the first.

In the course of socialist industrialisation there were fundamental changes in the *location of industry*. New first-class industrial centres were founded in the eastern regions of the country—in the Urals, Western Siberia and Kazakhstan. Socialist industrialisation was accompanied by the expansion of the old towns and the creation of *new towns*. Throughout the country, and particularly in the east, large towns and industrial areas sprang up which became economic and cultural centres completely transforming the character of the surrounding districts.

With the success of the industrialisation programme the Soviet Union was converted from a backward agrarian country into a mighty *socialist industrial Power*. A solid industrial base had been created for the technical reconstruction of the entire national economy, for strengthening the defensive capacity of the U.S.S.R. and for a steady improvement of the living standards of the people. The contradiction between the most progressive political authority in the world and the backward technical and economic base inherited from the past had been abolished.

Thus during the pre-war Five-Year Plans there took place a tempestuous growth of the productive forces of socialist industry. In the thirteen pre-war years the Soviet Union had covered the ground which the developed capitalist countries had taken approximately ten times longer to cover. This was a most outstanding leap forward from backwardness to progress, the like of which world history had never known. The gigantic development of the productive forces of the U.S.S.R. would not have taken place if the old capitalist relations of production had not been replaced by the new socialist relations.

The victory of industrialisation in the U.S.S.R. was achieved by the Communist Party and the Soviet State in struggle—struggle to overcome the enormous difficulties arising from the economic backwardness of the country, the most stubborn

resistance of the capitalist elements which were being eliminated, and the existence of a hostile capitalist environment. The Communist Party won its fight for the industrialisation of the country in battle against the worst enemies of socialism, the Trotskyists and Bukharinists, who opposed to the Party's general line of industrialising the country the line of converting the Soviet Union into an agrarian appendage of imperialist countries and tried to deflect the U.S.S.R. on to a capitalist path of development.

The socialist industrialisation of the U.S.S.R. was of enormous international significance. The rapid conversion of a formerly backward country into a powerful industrial Power demonstrated the indisputable advantages of the socialist system and strengthened the position of the U.S.S.R. in the international arena. The experience of industrialisation in the U.S.S.R. is today being used by the countries of people's democracy moving along the road of socialist construction.

The process of industrialisation in each country taking this path depends on both internal and external conditions. The Soviet Union being the first, and for a long time the only country building socialism in an environment of hostile capitalist Powers, was obliged to bring into being a heavy industry, comprising all basic branches, in an extremely short period and from its internal resources alone. This gave rise to enormous difficulties in the building of socialism in the U.S.S.R. The countries of people's democracy enjoy today different and more favourable circumstances, since there exists a powerful camp of democracy and socialism. Industrial construction in these countries takes into account the particular features of each country, which include their natural conditions and the economic expediency of developing this branch or that, bearing in mind all the advantages of a broad division of labour and economic mutual assistance between the countries of the socialist camp.

BRIEF CONCLUSIONS

(1) A large-scale machine industry is the material basis of socialism. Heavy industry is of decisive importance for building socialism. The essence of socialist industrialisation is the creation, using internal sources of accumulation, of a

powerful heavy industry capable of re-organising the entire national economy, including agriculture, on the basis of the most modern techniques and of assuring the complete predominance of socialist forms of economy, the technical and economic independence of the country, and its defensive capacity.

(2) The socialist method of industrialisation, having decisive advantages over the capitalist method, ensures the priority development of heavy industry at a high speed. Socialist industrialisation is carried out on a planned basis in a historically very brief period, and is put into effect in the interests of the working people. The nationalisation of industry, the banks, transport and foreign trade creates new sources of accumulation undreamed-of under capitalism, and makes possible the rapid mobilisation of resources for building up heavy industry.

(3) The Soviet State, led by the Communist Party, carried out the programme of industrialisation embodied in the Five-Year Plans, thanks to the fact that its policy was founded on economic laws and that it utilised the superiority of socialist economy and the labour enthusiasm of the working class and the entire working people. During the pre-war Five-Year Plans a technically advanced industry was built up which was the basis for the technical reconstruction of the entire national economy, strengthening the defensive capacity of the country and raising the living standards of the people. The Soviet Union was transformed into a strong industrial Power, independent of other countries and producing all the machinery and equipment it required with its own resources. The new socialist relations of production in the country were the decisive force which determined and secured the rapid growth of the productive forces of socialist industry.

CHAPTER XXV

THE COLLECTIVISATION OF AGRICULTURE

The Historical Necessity for Collectivisation of Agriculture. Lenin's Co-operative Plan

To build socialism it is necessary not only to industrialise a country but also to transform agriculture on socialist lines. Socialism is a system of social economy which combines industry and agriculture on the basis of socialist ownership of the means of production and collective labour.

The socialist transformation of agriculture is the most difficult task of the revolution after the conquest of power by the working class. In contrast to industry, where the socialist revolution finds large-scale and highly-concentrated production, agriculture in the capitalist countries has not reached such a degree of capitalist socialisation of production. Small-scale scattered peasant households numerically predominate in it. So long as small-scale individual farming is the predominant form of agriculture, the basis of the bourgeois economic order continues to exist in the countryside, and the exploitation of the poor and a considerable section of the middle peasantry by the rural bourgeoisie, remains. The system of small-scale commodity production is unable to save the peasant masses from poverty and oppression.

Only the socialist road can save the working masses of the peasantry from every kind of exploitation, poverty and ruin. Marxism-Leninism rejects as senseless and criminal the road of expropriation of the small- and middle-scale producers and the conversion of their means of production into State property. Such a course would undermine any possibility of the victory of the proletarian revolution and would drive the peasantry for a long time into the camp of the enemies of the proletariat. F. Engels wrote:

> "When we are in possession of State power we shall not even think of forcibly expropriating the small peasants (regardless of whether with or without compensation) as we

shall have to do in the case of the big landowners. Our task relative to the small peasant consists, in the first place, in effecting a transition of his private enterprise and private possession to co-operative ones, not forcibly but by dint of example and the offer of social assistance for this purpose." (Engels, "The Peasant Question in France and Germany", Marx and Engels, *Selected Works*, 1951, English edition, vol. II, p. 393.)

Lenin, in his plan for building socialist society, was guided by the principle that the working class must build socialism in alliance with the peasantry. The plan worked out by Lenin, for the transition of the peasantry from small-scale private property farming to large-scale socialist farming through co-operation, is an essential element of the general plan for building socialism.

Lenin's co-operative plan was based on the fact that, in the conditions of the dictatorship of the proletariat, co-operation is the easiest, most understandable and advantageous path for millions of peasants to use in passing from scattered individual farming to large-scale productive units—the collective farms. The most important economic prerequisite for productive co-operation by the bulk of the peasantry is the all-round development of a large-scale socialist industry, capable of re-organising agriculture too on a modern technical basis. The peasantry are drawn into the channels of socialist construction through the development in the first instance of the most simple forms of co-operation in the sphere of sale, supply and credit, and the gradual transition to co-operation in production, collective farms. Peasant co-operation must proceed with the most careful observance of the voluntary principle. Organisation of the peasant farms into co-operatives proved to be the only correct form of combining the personal interests of the peasants with the interests of the State as a whole, of drawing the main mass of the peasantry into the building of socialism under the leadership of the working class.

In bourgeois society, where the means of production belong to the exploiters, co-operation is a *capitalist* form of economy. In agricultural co-operation under capitalism the bourgeoisie are economically predominant and exploit the masses of the peasantry. In a social system where political power is in the hands of the working people themselves, and the basic means

of production are the property of the proletarian State, co-operation is a *Socialist* form of economy. "A system of civilised co-operators, given the social ownership of the means of production, with the class victory of the proletariat over the bourgeoisie, is the system of Socialism." (Lenin, "On Cooperation", *Selected Works*, 1950, English edition, vol. II, Pt. 2, p. 719.)

Basing himself on Lenin's works, Stalin advanced and developed a number of new propositions on the socialist transformation of agriculture.

In the multiform economy of the transitional period there is, on the one hand, a large-scale socialist industry based on social ownership of the means of production, and on the other hand the small-scale peasant economy based on private ownership of the means of production. Large-scale industry is equipped with modern techniques, while privately owned small-scale peasant agriculture is based on primitive techniques and manual labour. Large-scale industry develops at high speed, on the principle of extended reproduction, while small-scale peasant economy not only fails in its mass to achieve extended reproduction every year, but often has not the opportunity of achieving even simple reproduction. Large-scale industry is centralised on a national economic scale and is managed on a State plan, while small-scale peasant farming is scattered and subject to the influence of uncontrolled market factors. Large-scale socialist industry *abolishes* the capitalist elements, while small-scale peasant farming *gives birth* to them constantly, and on a mass scale. The Socialist State and the building of socialism cannot rest for any prolonged period on two *different* foundations—on the largest and most unified socialist industry and on the most scattered and backward small commodity peasant economy. In the final analysis, this would result in the disorganisation of the entire national economy.

Thus there is inevitably, in the economy of the transitional period from capitalism to socialism, a contradiction between large-scale socialist industry on the one hand and small-scale peasant farming on the other. This contradiction can only be resolved by the transition of the small-scale peasant economy to large-scale socialist agriculture.

The development of socialist industry and the growth of the urban population in the U.S.S.R. during the transitional period was accompanied by a rapid increase in the demand for agricultural produce.

But agriculture's speeds of development lagged far behind those of industry. The main branch of agriculture, grain production, advanced at a particularly slow rate. Small-scale peasant farming, which was the main supplier of marketed grain, had a semi-consumer character and marketed only one-tenth of the gross grain harvest. Despite the fact that by 1926 the sown area and the gross grain harvest had almost achieved pre-war level, the marketed supply of grain was only half the 1913 level. Small-scale peasant farming was unable to satisfy the growing demand for food supplies for the population and for raw materials for industry.

There are two ways of creating a large-scale economy in agriculture, a capitalist and a socialist way. The *capitalist* way means the emergence and development of large-scale capitalist farms in agriculture, based on the exploitation of hired labour. This is inevitably accompanied by the impoverishment and ruin of the working masses of the peasantry. The *socialist* way means the union of the small peasant farms in large-scale collective farms equipped with modern techniques. This frees the peasantry from exploitation and poverty and secures a steady improvement in their material and cultural level. There is no third way.

The transition from small-scale individual peasant to large-scale socialist farming cannot proceed spontaneously. Under capitalism the countryside automatically follows the towns, since the capitalist economy in the towns and the small-scale peasant economy in the countryside are at bottom kindred forms of economy, based on private ownership of the means of production. When there exists the dictatorship of the working class, the small-scale peasant countryside cannot follow the socialist town in this way. Lenin spoke of the *commodity-capitalist* tendency of the peasantry, in contrast to the *socialist* tendency of the proletariat.

The socialist town leads the small-scale peasant countryside. Large-scale socialist agricultural enterprises are organised. Industry equips the countryside with modern machine techniques. At the same time, cadres who have mastered the new techniques are trained. New productive forces develop in agriculture, which do not correspond to the old production relations of small-scale peasant farming. The law that the relations of production must necessarily correspond to the nature of the productive forces determines the need for new socialist relations of production in the countryside, to provide

scope for the development of the productive forces. Such relations of production can only be created through the union of the small individual farms into large-scale collective farms.

Achievement of the aim of socialist production—the satisfaction of the constantly growing requirements of society—requires the creation of a large-scale, highly productive socialist agriculture capable of supplying industry with raw materials and the population with food. Consequently, collectivisation represents the essential condition for fulfilling the requirements of the basic economic law of socialism, for accomplishing the most important tasks of building socialism and for satisfying the basic, vital interests of the peasantry.

The building of socialism meant the elimination of the disparity which had arisen in the development of industry and agriculture, the creation alongside large-scale industry of large-scale collectivised production in agriculture. This reflected the requirements of the law of planned, proportional development of the national economy.

Thus the gradual union of the small peasant farms into producer co-operatives, equipped with modern techniques, is an objective necessity in the transitional period from capitalism peasantry.

The Communist Party and the Soviet State recognised the historical necessity for collectivisation. They rejected the capitalist path of agricultural development as fatal to the cause of socialism and choose the socialist path. This was reflected in the consistent policy of collectivising agriculture. The 15th Congress of the C.P.S.U.(B) (1927) resolved:

> "It is necessary to regard as a priority, on the basis of the further co-operative organisation of the peasantry, the gradual transition of the scattered peasant farms on to the lines of large-scale production (collective working of the land on the basis of intensification and mechanisation of agriculture), and in every way to support and encourage the beginnings of socialised agricultural labour." (*The C.P.S.U. in Resolutions and Decisions of its Congresses, Conferences and Central Committee Meetings*, seventh Russian edition, Pt. 2, p. 317.)

The history of socialist construction in the U.S.S.R. has demonstrated that the path of productive co-operation of the peasant farms has fully justified itself. In all countries with a

more or less numerous class of small and middle peasants, this is the only possible and expedient path for the victory of socialism after the establishment of working-class power.

The Prerequisites of All-round Collectivisation

The execution of this gigantic and historic task—the collectivisation of millions of small peasant farms—required appropriate preparation. Whereas the very development of capitalism had prepared the material conditions for the socialist transformation of industry, in agriculture they had to be to a considerable extent created during the transitional period.

The economic policy of the Communist Party and the Soviet State, up to the all-round collectivisation of the countryside, was directed towards supporting by all available means the poor and middle strata of the countryside and restricting the exploiting tendencies of the rural bourgeoisie. The poor peasantry, accounting for 35 per cent of the peasant population, was completely freed from taxes. In its labour legislation, the Socialist State carefully protected the interest of the poor peasantry and agricultural workers. Land improvements in the poor and weak middle-peasant farms were provided free, at the expense of the State. The State organised machine-hiring stations which extended productive assistance, in the first instance, to the poor farms. Money credits were given to the poor and middle peasants, and seed and provision loans were provided on privileged terms. The State organisation of scientific assistance, the supply of mineral fertilisers, the struggle against drought, the execution of large irrigation works, etc., were of great importance in promoting the prosperity of the peasant economy. At the same time the Communist Party and the Soviet State were restricting and squeezing out the rural capitalist elements through high taxation of the kulaks, diminishing the extent of leased land and the use of hired labour, and prohibition of the purchase and sale of land.

The fundamental task of building socialism in the countryside was, under the leadership of the working class and relying on large-scale socialist industry to lead the bulk of the peasantry from the old private property path on to the new socialist collective farm path.

The *nationalisation of the land* in the U.S.S.R. freed the small

peasant from attachment to his plot of land due to private ownership, and thereby facilitated the transition from small-scale peasant farming to large-scale collective farming. The nationalisation of the land created favourable conditions for organising large socialist farms in agriculture, since it made unnecessary unproductive expenditure on land purchase and payment of rent.

The all-round development of *socialist industry*, as the key to the socialist transformation of agriculture, was of decisive importance in paving the way for collectivisation. In the very first years of industrialisation in the U.S.S.R. factories were built for the production of tractors, combine harvesters and other complex agricultural machines. During the first Five-Year Plan alone, agriculture received 160,000 tractors (in terms of 15-h.p. units).

An industrial base was created for the supply of tractors, combine harvesters and other agricultural machines to the countryside.

The mass movement of the peasantry along the collective farm path had the way prepared for it by the development of *agricultural co-operation*. The first stage in co-operation among peasant farms is the co-operative sale of agricultural produce and supply of manufactured goods to the countryside, as well as in the sphere of credits. Together with the specialised forms of agricultural co-operation in dairying, flax growing and sugar-beet production, credit arrangements, etc., *industrial handicraft co-operation* is of great importance. These forms of co-operation play an important role in the transition from individual peasant to large-scale social farming. They accustom broad strata of the peasantry to the habit of collectively conducting economic affairs. At this stage there is primarily a *trade bond* between socialist industry and the peasant economy which is achieved through the expansion of State and co-operative trade and the squeezing out of private capital from trade. Thus the peasants are freed from exploitation by the traders and speculators. An important role is played in this respect by the *consumer co-operatives* in the countryside trading in consumer goods.

The system of *contracts*, as a form of organised trade turnover, is of great importance in the relations of the State and the co-operative unions, and is the simplest form of production bond between town and countryside. This system is based on

agreements whereby the State places orders with the co-operative producers and the individual peasant farms for the production of specified quantities of agricultural produce, supplies them with seeds and implements of production, making it a condition that they should adopt the best farming methods (drill sowing, use of selected seed, application of fertilisers, etc.). It purchases their marketed output to supply the population with food and industry with raw materials. This system is advantageous to both parties, and directly links the co-operatives and individual peasant farms with industry, without the intervention of private middlemen.

The highest form of peasant co-operation is the organisation of collective undertakings—the collective farms, which means a transition to large-scale socialised production. The *collective farm* is a voluntary productive co-operative union of the peasants, based on social ownership of the means of production and on collective labour, which excludes the exploitation of man by man.

The first collective farms, created soon after the socialist revolution, played an important role in preparing mass collectivisation. The peasants became convinced of the superiority of collective over individual forms of farming by the example of these collective farms.

The predominant type of collective farm, before all-round collectivisation, was the *association for joint cultivation of the land* (T.O.Z.). In these, land-use and labour were socialised, but the draught cattle and agricultural equipment remained the private property of the peasant. With the development of mass collectivisation the T.O.Z. proved to belong already to a past stage. In a number of districts there were *agricultural communes* in which not only all the means of production but also the personal family plot of the collective farmer were socialised. These communes proved impracticable, as they arose in conditions of undeveloped techniques and insufficiency of products. They practised egalitarian distribution of consumer products. The communes, by decision of the peasants themselves, were subsequently converted into agricultural artels.

The agricultural artel became the basis and main form of collective farm. It is a form of collective undertaking built on the *socialisation* of the main means of production of the peasants and on their collective labour, while the collective farmers

retain, as their personal property, a subsidiary enterprise on a scale laid down by the Statute of the Agricultural Artel.

The leading role of large-scale socialist industry in collectivisation is exercised through the *machine and tractor stations* (M.T.S.). These are State socialist enterprises in agriculture, disposing of the tractors, combine harvesters and other complex agricultural machines, and servicing the collective farms on a contractual basis. The M.T.S. is the industrial basis of large-scale collective agriculture. The M.T.S. ensures the correct combination of the voluntary effort of the collective farm masses in building and developing their collective farms with the guidance and assistance of the Socialist State.

The machine and tractor stations are a powerful instrument for the socialist reconstruction of agriculture, and a chief means of establishing co-operation in production between industry and agriculture. This co-operation consists in large-scale socialist industry supplying agriculture with machinery and other means of production, equipping it with modern, perfected techniques.

Large-scale State agricultural enterprises organised by the Socialist State on a part of the former landowners' estates, as well as on free lands of the State reserve, play an important part in the socialist transformation of agriculture. The State farms (sovkhozy) were already being set up in the U.S.S.R. in the first year after the socialist revolution. A *State farm* is a large-scale socialist agricultural enterprise in which the means of production and all the produce belong to the State. The State farms are one of the most important sources of foodstuffs and raw materials at the disposal of the State. As highly mechanised and highly productive socialist enterprises, they enabled the peasants to convince themselves of the advantages of large-scale socialist farming, providing them with assistance in the form of tractors, graded seed and pedigree cattle. They facilitated the turn of the peasant masses towards socialism through collectivisation.

The collective farm system arose with the financial and organisational support of the working class. The Soviet State expended enormous sums on financing the building of collective and State farms. In the early years of the mass collective farm movement, the best Party workers and tens of thousands of leading workmen were directed into the countryside and gave great help to the peasants in organising collective farms.

The work of the Communist Party in the political education of the peasant masses played an important part in preparing the peasantry for the transition to collectivisation.

The turn of the bulk of the peasantry towards collectivisation required an implacable *class struggle against the kulaks*. The kulak opposition to the policy of the Soviet Government in the countryside grew particularly strong in 1927–8, when the Soviet Union was experiencing grain difficulties. The kulaks organised sabotage of State grain purchases, committed terrorist acts against collective farmers, Party and Soviet workers, and set fire to collective farms and State granaries. The policy of decisive struggle against the kulaks and the defence of the interest of the working peasantry rallied the poor and middle peasant masses around the Communist Party and the Soviet State.

All-round Collectivisation and the Elimination of the Kulaks as a Class

The decisive turn of the peasantry towards the collective farms in the U.S.S.R., dates from the second half of 1929. By this time the economic and political prerequisites for the collectivisation of agriculture had been created. Into the collective farms came the middle peasant, that is the basic mass of the peasantry. The peasantry were entering the collective farms no longer in separate groups but by whole villages and districts. The process of *all-round collectivisation* in the Soviet countryside had commenced.

Before all-round collectivisation, the Communist Party and Soviet State had carried out a policy of *restricting and squeezing out* the rural capitalist elements. But this policy did not abolish the economic basis of the kulak element or eliminate them as a class. Such a policy was necessary until the conditions for all-round collectivisation had been created, and until there was a broad network of collective and State farms in the countryside which could replace capitalist grain production by socialist production.

In 1926–7 the kulaks produced 10 million tons of grain and sold over 2·03 million tons outside the countryside, while the State and collective farms produced 1·33 million tons and marketed just over half a million tons. The situation was fundamentally changed in

1929, when State and collective farms produced no less than 6·5 million tons and marketed nearly 2·1 million tons, that is, they outdistanced kulak production of marketed grain.

The great turn of the bulk of the peasant masses to socialism meant a fundamental shift of the class forces of the country, in favour of socialism and against capitalism. This enabled the Communist Party and the Socialist State to move forward from the old policy of restricting and squeezing out the capitalist elements in the countryside to a new policy, the policy of *eliminating the kulaks as a class* on the basis of all-round collectivisation.

All-round collectivisation was achieved in the course of a mass struggle of the peasant against the kulaks, who offered furious resistance to collectivisation. The working class, leading the main mass of the peasantry, took the last capitalist stronghold in the country by storm so as to defeat the kulaks in open battle, before the eyes of the entire peasantry, and to convince the peasant masses of the weakness of the capitalist elements. With all-round collectivisation the land around the villages passed into the use of the collective farms. But as a considerable part of this land had been held by the kulaks, the peasants, in organising the collective farms, took from the kulaks land, cattle and equipment and expropriated them. The Soviet Government repealed the laws permitting leasing of land and hiring of labour. Thus the eliminating of the kulaks as a class was an essential constituent element of all-round collectivisation.

Collectivisation was carried out with strict adherence to the Leninist principles for the building of collective farms: voluntary entry of the peasants into the collective farms, allowance for the differences in economic and cultural levels in different parts of the country and the inadmissibility of side-stepping the agricultural artel, as the main form of collective farm construction, in favour of the commune.

All-round collectivisation and the elimination of the kulaks as a class which was based upon it, was "a profound revolution, a leap from an old qualitative state of society to a new qualitative state, equivalent in its consequences to the revolution of October 1917". (*History of the C.P.S.U.(B). Short Course*, English edition, p. 305.)

This was a revolution which abolished the old bourgeois system of individual-peasant farming and created a new

socialist collective farm system. A unique feature of this revolution was the fact that it was carried out *from above*, on the initiative of the State, with direct support *from below*, from the millions of peasants struggling against kulak bondage for a free collective farm life.

This revolution solved a number of fundamental problems of socialist construction.

In the first place, it eliminated the most numerous exploiting class in the country, the kulaks. The elimination of the kulaks as a class, on the basis of all-round collectivisation, was a decisive step in abolishing the exploiting classes. The question "who will beat whom?" had been answered not only in the towns but also in the countryside—and in favour of socialism. The last sources for the restoration of capitalism in the U.S.S.R. had been abolished.

In the second place, it turned the most numerous toiling class in the country, the peasants, from individual farming which gives birth to capitalism to the path of socially-owned, collective, socialist economy. In this way the most difficult historic problem of the proletarian revolution was solved.

In the third place it gave Soviet power a socialist basis in agriculture, in the most extensive and vitally necessary, and yet most backward, branch of the national economy. Agriculture began to develop on a common basis with industry, that of social ownership of the means of production. In this way one of the most profound contradictions of the transitional period, the contradiction between large-scale socialist industry and small-scale individual peasant farming, was resolved, and the basis for the antithesis between town and country was abolished.

The old capitalist and petty-bourgeois production-relations in the countryside, which were a fetter on the productive forces, were replaced by new socialist relations of production. Thanks to this, the productive forces in agriculture acquired scope for their development.

The Agricultural Artel as the Main Form of the Collective Farm

The experience of building collective farms in the U.S.S.R. has shown that the agricultural artel, of all forms of collective farm, makes possible the development of the productive forces

of socialist agriculture to the greatest extent. The agricultural artel properly combines the personal interests of the collective farmers with the social interests of the collective farm. The artel successfully adapts personal everyday interests to social interests, and in this way facilitates the training of the former individual farmers in a spirit of collectivism. In accordance with the Statute of the Agricultural Artel the following items are socialised: agricultural equipment, draught cattle, seed stocks, fodder resources for the socialised cattle, farm buildings necessary for the artel economy and all plant for the processing of products. In the agricultural artel such important branches of agriculture as grain farming and cultivation of industrial crops are completely socialised. Care of socialised livestock is organised in livestock departments of the collective farms. Highly-developed artels also organise large-scale socialised production of potatoes and vegetables, as well as horticulture, viticulture, etc.

In the agricultural artel there are *not socialised*, but remain the *personal property* of the collective farm household, dwellings, a fixed number of productive cattle, poultry, farm buildings required for quartering the privately owned cattle, and small agricultural implements for the individual subsidiary plot. The artel management supplies horses from the socialised livestock, in return for payment, for the personal requirements of its members. The collective farmers receive their main income from the socially-owned economy of the collective farms, which is their main and most important part.

In accordance with the Statute of the Agricultural Artel, each collective farm household can have as its personal property: *in the grain and industrial-crop areas*—a cow, up to two calves, one sow with its young or, with the permission of the collective farm management, two sows with their young, up to ten sheep and goats; *in the agricultural areas with well-developed livestock raising*—two or three cows and their young, two or three sows and their young, twenty to twenty-five sheep and goats; *in non-nomadic or semi-nomadic livestock raising areas, where livestock raising is the most important branch of economy*—four or five cows and their young, thirty to forty sheep and goats, two or three sows with their young, and also one horse or one milking mare each, or alternatively two camels, two donkeys or two mules each; *in nomadic livestock areas*—eight to ten cows and their young, 100 to 150 sheep and goats, up to ten horses and five to eight camels. In addition, an unlimited quantity of poultry and rabbits, as well as up to twenty bee-hives, are allowed in all areas.

An allotment of 0·62 to 1·25 acres is allocated for the personal use of each collective farm household for its subsidiary economy, out of the socialised land. In some areas the allotment is up to 2·5 acres depending on the particular features of the district.

The period of agricultural reorganisation in the U.S.S.R. was completed by the end of the first Five-Year Plan. By 1932 the collective farms embraced more than 60 per cent of peasant farms and more than 75 per cent of their sown area. But the kulaks, routed in open battle, were not yet finished. Penetrating the collective farms by deceit, the kulaks strove to disrupt them from within by various wrecking methods. The Communist Party and the Soviet State put before themselves the *organisational and economic strengthening of the collective farms*, as the main task of collective farm construction. This meant strengthening the Party and State guidance of the collective farms, cleansing them of the kulak elements which had infiltrated into them, protecting socialist property and improving the organisation and discipline of collective labour.

The victory of the collective farm system was won in decisive struggle against the exploiting classes and their Trotskyist and Bukharinist agents, who defended the kulaks in every possible way, combated the creation of collective and State farms and demanded the dissolution and abolition of the existing collective and State farms. The Communist Party routed the Trotskyist line of the exploitation and forcible expropriation of the peasantry by means of high prices for industrial goods and excessive taxes, and also the right-opportunist Bukharinist theory of the "peaceful growing of the kulaks into socialism", and of "letting things develop themselves" in economic construction.

The Transformation of the U.S.S.R. from a Country of Small Peasant Holdings into a Country with the Largest-scale Agriculture in the World and a Highly Mechanised one

Collectivisation was completed by the end of the second Five-Year Plan. The method of collectivisation adopted proved to be by far the most progressive. It enabled the entire country to be covered in the course of a few years with large-scale collective farms capable of applying modern techniques, making use of all agronomic achievements and providing the country

with a greater marketed surplus. It opened the way for a big rise in the living standards of the peasantry.

The U.S.S.R. had created and consolidated the *largest scale* agriculture in the world in the form of a comprehensive system of collective farms, M.T.S. and State farms. These represent the new socialist mode of production in agriculture.

In place of the 25 million peasant farms in the U.S.S.R. on the eve of all-round collectivisation, by mid-1938 there were 242,400 collective farms (not counting fishery and handicraft collectives). Each collective farm had an average of 3,820 acres of agricultural land, which included 1,200 acres of sowings. In the U.S.A. in 1940, only 1·6 per cent of farms had a land area of 1,000 acres or more.

The collective farm system demonstrated its indisputable superiority over the capitalist system of agriculture and over small-scale peasant farming.

> "The great importance of the collective farms lies precisely in that they represent the principal basis for the employment of machinery and tractors in agriculture, that they constitute the principal base for remoulding the peasant, for changing his mentality in the spirit of socialism." (Stalin, "Problems of Agrarian Policy in the U.S.S.R.", *Leninism*, 1941, English edition, p. 322.)

During the first two Five-Year Plans a genuine technical revolution took place in agriculture, as a result of which a solid material and productive base for socialism in the countryside was created. By the beginning of the third Five-Year Plan, the agriculture of the U.S.S.R. was the largest-scale agriculture in the world and highly mechanised.

While the use of machinery in agriculture is inevitably accompanied under capitalism by the ruin of the small peasants, mechanisation of socialist agriculture, based on collective labour, eases the toil of the peasant and brings about an improvement in his living standards.

In 1940 agriculture in the U.S.S.R. had 684,000 tractors (in 15-h.p. units), 182,000 combine harvesters and 228,000 lorries. In 1930 there were 158 M.T.S. and by the end of 1940, 7,069. Mechanisation in collective farm work had reached the following levels by 1940: turning of fallow land 83 per cent, spring ploughing 71 per cent; spring and winter sowing 52–3 per cent; harvesting with grain combines 43 per cent.

The collective farm system ensured a considerable rise in agricultural production and a *high marketable surplus*. This was very important for the supply of the country with foodstuffs and raw materials. Gross agricultural production in the U.S.S.R. in 1940 was almost double the pre-revolutionary level (1913). The marketed surplus of collective and State farm grain production reached 40 per cent of gross production by 1938, compared with 26 per cent in 1913. Moreover, the marketed surplus of grain of the poor and middle peasant farms had amounted to only 14·7 per cent in pre-revolutionary times. The collective and State farms have enormous possibilities for achieving a steady growth of production. They do not suffer from sales crises, since the systematic growth of the living standards of the people is accompanied by a constantly growing demand for agricultural produce.

The victory of the collective farm system offered the Soviet peasantry a prosperous and cultured life. The collective farm system destroyed the possibility of differentiation of the peasantry: poverty and beggary in the countryside were no longer possible. Tens of millions of poor peasants were assured of their livelihood by entering the collective farms. Thanks to the collective farms, there were no longer peasant farms without horses, cows or implements. The personal income of the collective farmers from the socially-owned economy of the collective farms and from their individual subsidiary plots increased 2·7 fold between 1932 and 1937 alone.

The victory of the collective farm system made even stronger the friendly alliance of the workers and peasants. The collective farm peasantry became a firm pillar of Soviet power in the countryside. Now, no longer the working class alone but also the peasantry had began to base its existence on social or socialist ownership of the means of production.

The experience of building collective farms in the U.S.S.R. enormously facilitates the task of the socialist transformation of agriculture in other countries moving from capitalism to socialism. At the same time the particular historical development of different countries in the transitional period from capitalism to socialism determines the precise preparatory conditions and the forms and methods of collectivisation of agriculture in each country. Thus in the countries of people's democracy, as distinct from the U.S.S.R. where the whole of

the land is nationalised, private peasant ownership of the land is retained for a certain time while co-operation of the peasant farms is being developed. This is the reason for the variations in forms of organisation and in the operation of the producer co-operatives in the countryside. In those countries productive co-operatives predominate, in which the distribution of incomes takes place not only according to the quality and quantity of work done, but also according to the size of the area of land transferred to the co-operative and remaining in the private possession of the peasant member of the co-operative. These co-operatives are a lower form of socialist farming compared to the agricultural artel, where the incomes received by the collective farmer from the socialised farm are distributed only according to work done.

However, no matter how important the differences in conditions, forms and methods of carrying out the socialist transformation of agriculture in different countries, the basic principles of Lenin's co-operative plan, which have been tested by the experience of collective farm construction in the U.S.S.R., are common to all countries making that transformation.

BRIEF CONCLUSIONS

(1) Collectivisation of agriculture is an essential condition for building socialism. The essence of collectivisation is the gradual and voluntary union of the peasant farms in producer co-operatives. Collectivisation means the transition from small-scale, individual, backward private farming to large-scale socialist farming equipped with modern machine techniques. Collectivisation corresponds to the vital interests of the peasantry and all the working people.

(2) The most important prerequisites for all-round collectivisation are: the socialist industrialisation of the country, the development of agricultural co-operation, the experience of the first collective and State farms, which demonstrate to the peasantry the superiority of large-scale socialist farming, the creation of machine and tractor stations, and a decisive struggle against the kulaks.

(3) All-round collectivisation, and with it the elimination of the kulaks as a class, which was carried out under the leadership

of the Communist Party and the Soviet State, was a most profound revolutionary transformation involving the transition from the bourgeois individual-peasant system to a new socialist collective farm system. This revolution eliminated the most numerous exploiting class—the kulaks—and turned the most numerous toiling class—the peasantry—from the capitalist to the socialist path of development. It created a firm socialist base for the Soviet State in agriculture.

(4) With the victory of the collective farm system, the Soviet Union was transformed from a country of small peasant farming to a country with the largest-scale agriculture in the world and a highly mechanised one. The productive forces of agriculture acquired scope for their development. The Soviet peasantry escaped for ever from exploitation, poverty and beggary were abolished in the countryside, and conditions for an uninterrupted improvement in the material and cultural life of the collective farm peasantry were created. The friendly alliance of the workers and peasants became strong.

CHAPTER XXVI

THE VICTORY OF SOCIALISM IN THE U.S.S.R.

The Consolidation of the Socialist Mode of Production

The successes of socialist industrialisation of the U.S.S.R. and collectivisation of agriculture brought about a fundamental change in the balance of the types of economic structure and class forces in the U.S.S.R., in favour of socialism and to the detriment of capitalism. Up to the second half of 1929 the decisive onslaught against the capitalist elements had taken place primarily in the towns. On passing to all-round collectivisation and the elimination of the kulaks as a class, this onslaught embraced the countryside, too, thereby acquiring a *universal* character. *The general advance of socialism along the whole* front had commenced. As a result of the swing of the bulk of the peasant masses towards socialism, the capitalist form of economy was deprived of its base in the shape of small commodity production and began to perish. By 1930 the socialist sector already held the levers of the development of the entire national economy in its hands. It then not only occupied completely the dominating position in industry but also began to play the decisive role in agriculture. This was evidence that the U.S.S.R. had *entered the period of socialism.*

Entry into the period of socialism did not yet mean the end of the transitional period, since the task of building a socialist society had not been fully accomplished. But this was already the *last* stage of the transitional period. At the beginning of N.E.P. there was some revival of capitalism, but now the last stage of N.E.P. had commenced—the stage of the complete elimination of the capitalist element in the country.

The advance of socialism along the whole front was accompanied by a sharpening of the class struggle, in the course of overcoming enormous difficulties. These difficulties were connected with the fundamental reconstruction of industry and agriculture and with the technical reorganisation of the entire national economy. Reconstruction in agriculture was impossible

without the simultaneous reorganisation of the old economic structure, without collectivisation of the peasant farms and without uprooting capitalism in the countryside. The advance of socialism inevitably evoked the desperate resistance of the dying exploiting classes who undertook wrecking, sabotage, diversions and terror with the support of the capitalist environment. The difficulties of socialist construction differ fundamentally from those inherent in a capitalist economy. Crises and unemployment, which cannot be overcome within the framework of capitalism, are inherent in capitalist economy. The difficulties of socialist construction are those of growth, upsurge and advance, and they accordingly contain within themselves the possibility of being surmounted.

With the completion of the *first Five-Year Plan* in the U.S.S.R. *the foundations of a socialist economy*, in the form of socialist industry and large-scale collective agriculture equipped with modern techniques, had been laid. The capitalist elements in industry had been eliminated. Collectivisation in the principal agricultural districts of the country had in the main been carried out, and the kulaks had been routed although not yet finished with. The transition to Soviet trade—trade without capitalists—had been completed. Private trade had been completely squeezed out by State, co-operative and collective farm trade.

At the beginning of the *second Five-Year Plan* the U.S.S.R. ceased to have a mixed economy. Of the five economic sectors in the national economy, three—the private economy of capitalism, State capitalism and patriarchal economy—no longer existed. The small commodity sector had been relegated to a secondary position, and the socialist sector had become the completely predominant and only commanding force in the entire national economy. This meant that the Soviet Government was now based, both in the town and in the countryside, on socialist foundations.

In the second Five-Year Plan the *technical reconstruction of the entire national economy* was completed. The U.S.S.R. became an economically independent country providing its economy and its defence requirements with the necessary technical equipment. Numerous cadres, successfully mastering the new techniques, had developed in all branches of the national economy.

"As a result of the successful fulfilment of the second Five-Year Plan . . . *the main historic task* of the second Five-Year

Plan—the final elimination of all exploiting classes, of all the causes giving rise to the exploitation of man by man and the division of society into exploiters and exploited—was accomplished. The most difficult task of the socialist revolution has been carried out: the collectivisation of agriculture has been completed and the collective farm system finally consolidated." (*The C.P.S.U. in Resolutions and Decisions of its Congresses, Conferences and Central Committee Meetings*, seventh Russian edition, Pt. 2, p. 879.)

With the completion of collectivisation capitalism had been uprooted from the economy. The differentiation of the peasantry and the rebirth of capitalist elements had ceased.

The main contradiction of the transitional period—the contradictions between growing socialism and the overthrown, but still at the outset strong, capitalism, with its basis in small commodity production—had been overcome. The question "who will beat whom?" had been decided in favour of socialism. The purpose of N.E.P., the victory of the socialist forms of economy, had been achieved, Lenin has said that N.E.P. was being introduced in earnest and for a long time, but not for ever, and that N.E.P. Russia would become Socialist Russia. Lenin's scientific foresight had been fully vindicated. The victory of socialism denoted the end of the transitional period, the end of N.E.P.

By 1936, socialist forms of economy accounted for 98·7 per cent of all the means of production, including 99·95 per cent in industry and 96·3 per cent in agriculture. Between 1923–4 and 1936 the share of the socialist forms of economy had increased as follows: in gross industrial production from 76·3 to 99·8 per cent, in gross agricultural production (including the personal subsidiary economy of the collective farmers) from 1·5 to 97·7 per cent, in retail trade turnover from 43 to 100 per cent and in the national income from 35 per cent in 1924–5 to 99·1 per cent in 1936.

Thus, as a result of the transitional period in the U.S.S.R., the victory of socialism was ensured. This was made possible because there had been found in the Soviet Union such a social force as the alliance of the working class and the peasantry, which united the overwhelming majority of society. The working class in alliance with the peasantry used the law of the necessary correspondence of production relations to the character of the productive forces for the purpose of overthrowing

the old bourgeois relations of production and creating new socialist relations of production throughout the national economy. The resistance of the bourgeoisie, whose interests ran contrary to this law, was broken.

During the transitional period in the U.S.S.R. the most progressive of all modes of production which have so far existed in history was consolidated. This was the *socialist mode of production.* The new powerful productive forces of industry and agriculture were developed. Thereby the material conditions for the complete victory of socialist production-relations and for their consolidation throughout the national economy had been created. In turn, socialist relations of production, victorious in both town and countryside, opened a wide field for the development of the productive forces, and secured the necessary conditions for the uninterrupted and rapid growth of production. The building of socialism was the only way to eliminate the age-long technical and economic backwardness of Russia, to save the country from foreign bondage and ensure its national independence. In the shortest possible period of history, the U.S.S.R. had become a mighty industrial and collective farm Power. The working class, the working people of the U.S.S.R., under the leadership of the Communist Party, had built a socialist society and translated into reality the hopes of many generations of labouring people.

Socialism is a system based on social ownership of the means of production in its two forms—State (public) and co-operative or collective farm property. In this system there is no exploitation of man by man. The national economy is developed in a planned way, for the purpose of completely satisfying the growing needs of the working people by means of an uninterrupted growth of production on the basis of advanced techniques and realisation of the principle of distribution according to work.

The victory of socialism in the U.S.S.R. was the most profound revolutionary transformation in the history of mankind.

Changes in the Class Structure of Society

The construction of a socialist economy in the U.S.S.R. brought about radical changes in the *class structure* of society. Under socialism there are no exploiting classes. Socialist

society consists of two friendly toiling classes—the working class and the peasantry, and also the intelligentsia who are completely rooted in these classes.

In pre-revolutionary Russia, in 1913, manual and clerical workers accounted for 16·7 per cent of the population, small commodity producers (peasants and handicraftsmen) 65·1 per cent, exploiting classes 15·9 per cent (including kulaks 12·3 per cent), and others (students, pensioners, the army, etc.) 2·3 per cent.

By 1937, in the U.S.S.R. manual and clerical workers accounted for 34·7 per cent of the population, collective farm peasantry and co-operative handicraftsmen 55·5 per cent, students, pensioners, the army and others, 4·2 per cent. Individual peasant farmers and handicraftsmen not working in co-operatives, that is, self-employed persons in small commodity production, accounted for only 5·6 per cent of the population. The exploiting classes, the landowners and bourgeoisie, had been eliminated during the transitional period.

The victory of socialism fundamentally changed the character and position of the working class, the peasantry and the intelligentsia.

The working class had ceased to be a class deprived of the means of production, which sold its labour-power and was exploited by the capitalists. It was converted into a completely new class, which had never existed in history up till then, owning the means of production in common with the whole of the people, and freed from exploitation. The life of the working class in the U.S.S.R. is based on State (public) ownership and on socialist labour. It is the advanced class of society and the leading force in its development. Accordingly, the State guidance of society (the dictatorship) belongs in the U.S.S.R., to the working class.

The peasantry from being a class of small scattered producers, whose life was based on private property, personal labour and primitive techniques, exploited by landowners, kulaks, merchants and usurers, had become a completely new class, the like of which history had not known. The peasantry in the U.S.S.R. has been freed from exploitation. Its work and its fortunes are bound up with social, co-operative and collective farm property, collective labour and modern techniques. The peasantry, in close alliance with the working class and under its leadership, participates in the administration of the Soviet State, which is a Socialist State of workers and peasants.

The victory of socialism in the U.S.S.R. completely ended the exploitation of the countryside by the town and the ruin of the peasantry. In this way the age-long *antithesis of town and country* was abolished. The town, which under capitalism was the centre of exploitation of the countryside, became under socialism a centre of economic, political and cultural assistance to the countryside. The vast help extended to the peasantry by the socialist town in eliminating the landowners and kulaks, and in the systematic supplying of the peasantry and collective farms with tractors and other machines, strengthened the alliance of the working class and peasantry.

With the aid of the socialist town, the countryside acquired new powerful productive forces. The bond between industry and agriculture became ever stronger. The contradictory interests of town and countryside disappeared. Not even a trace remained of the past distrust and even hatred of the countryside for the town. Both the town and the country began to develop on a socialist basis. The interests of the workers and peasants have common ground in strengthening the socialist system and building communism.

A new *intelligentsia* had been born in the U.S.S.R. joined by that section of the old intelligentsia which united itself with the people after the revolution. In bourgeois society, the intelligentsia is mainly drawn from the propertied classes. It serves the capitalists, is exploited by them and itself helps to exploit the workers and peasants. Under capitalism a considerable section of the intelligentsia is either compelled to engage in unskilled work or falls into the ranks of the unemployed. In the U.S.S.R. by far the greater part of the intelligentsia comes from the working class and the peasantry. The Soviet intelligentsia does not know exploitation. It serves the working people and the cause of socialism, and has every opportunity for the fruitful employment of its knowledge. Under socialism the intelligentsia is, together with the working class and the peasantry, an equal member of society, actively participating in the administration of the country. In 1937 the Soviet intelligentsia numbered 9·6 million people, and when the families of the intelligentsia are included, it accounted for approximately 13–14 per cent of the population of the U.S.S.R.

With the victory of socialism in the U.S.S.R., the age-long *antithesis of mental and physical labour* was done away with. The

conditions in which a considerable section of the workers by brain helped the ruling classes to exploit the manual workers, were ended. Under socialism the workers and heads of enterprises are a single working collective, interested in the growth of production. The monopoly of education held by the propertied classes has been abolished. Science is used in the interest of the entire people, and education is a possession of the workers and peasants.

The victory of socialism created all the necessary conditions for the masses of the people to lead a prosperous cultured life. In accordance with the basic economic law of socialism the *living standards* of the working class, the peasantry and the intelligentsia, were considerably raised during the transitional period. Unemployment and want vanished. In the countryside, propertyless peasants no longer existed. The real wages of manual and clerical workers went up, as also did the real income of the peasantry. A *cultural revolution* was carried out in the country. With the completion of the first two Five-Year Plans universal compulsory elementary education in the languages of the nationalities of the U.S.S.R. was achieved. The network of educational institutions grew up on a huge scale throughout the country. The number of specialists, in various branches of the economy and of culture, multiplied several times over. Throughout the country the training of cadres developed on a wide scale and there was a huge increase in the network of educational institutions.

The national income of the U.S.S.R., which belongs entirely to the working people, increased, in fixed prices, more than 4½-fold by 1937 compared with 1913. Output of consumer goods by large-scale industry increased by 1937 nearly 6-fold compared with 1913. In the second Five-Year Plan alone, the real wages of manual and clerical workers were doubled.

The number of pupils in elementary and secondary schools increased from 7·9 million in 1914 to 29·6 million in 1937, and the number of students in higher educational institutions from 117,000 to 547,200. The print of books increased from 86,700,000 copies to 673,500,000 copies. Newspaper daily circulation increased from 2,700,000 to 36,200,000.

In accordance with the principles of the socialist system, Soviet power put an end to the oppressed position of women. In the U.S.S.R. woman have in practice, equal rights with man in all spheres of economic, cultural, social and political life.

Women receive equal pay for equal work. The victory of socialism introduced millions of women to skilled work. During the Five-Year Plans a great number of women rose to executive posts. A fundamental transformation in the position of women in the countryside took place with the victory of the collective farms, which abolished the former inequality of women in the individual peasant economy. Women acquired the opportunity to stand on an equal footing with men and to occupy an honourable place in the social economy of the collective farms. The victory of socialism emancipated women from their semi-slave condition in a number of the national regions, where feudal and patriarchal traditions still survived. The women of the national regions together with the women of the entire country became active builders of socialism.

In 1936, 42 per cent of the numbers accepted into higher educational institutions were women, and 48 per cent of those accepted into technical colleges. The proportion of women students in industrial higher educational institutions in 1935, was seven times higher than in Germany, ten times higher than in Great Britain and twenty times higher than in Italy. The number of women doctors in the U.S.S.R. in 1940 was forty times greater than in 1913. Whereas in 1913, 9·7 per cent of the doctors were women, by 1940 the figure was about 60 per cent.

With the victory of socialism and the abolition of exploitation of man by man, there ceased to exist in the U.S.S.R. antagonistic classes and irreconcilable class contradictions. Class relations in socialist society are characterised by the indestructible friendship and comradely co-operation of the working class, peasantry and intelligentsia. Class differences between the working class and the peasantry and equally between these classes and the intelligentsia are being gradually effaced. Capitalist society is rent by class and national antagonisms which deprive it of stability. Socialist society, which does not know class and national antagonisms, is distinguished by its monolithic and stable character. The complete predominance in the U.S.S.R. of social ownership and the socialist economic system provided the economic basis on which such powerful motive forces of social development as the *moral and political unity of Soviet society, the friendship of the peoples of the U.S.S.R. and Soviet patriotism* developed. These driving forces interact to an enormous extent on the economy, and accelerate its development.

The fundamental changes which took place in the socialist economy and class structure of the U.S.S.R. were expressed in the State superstructure. The Soviet State passed through two main phases of development. The first phase relates to the period from the October Revolution up to the elimination of the exploiting classes. The State in this period repressed the overthrown classes and defended the country against attacks from outside. The State also exercised economic, organisational, cultural and educational functions, but these were not yet fully developed. In the second phase of development, the Soviet State faced the task of organising a socialist economy throughout the country and of eliminating the last remnants of the capitalist elements. The function of repressing the exploiters disappeared, and its place was taken by the protection of socialist property. The function of military defence of the country from the capitalist environment remained. The creation of the socialist basis ensured the full development of the economic, organisational, cultural and educational functions of the machinery of State.

Marking the completion of the changes which had taken place, a new *Constitution of the U.S.S.R.* was adopted in 1936. This put the legislative seal to the principles and basic foundations of socialism. It does not confine itself to laying down the formal rights of citizens, but gives pride of place to the effective guarantee of these rights. Thus the Constitution of the U.S.S.R. does not simply proclaim the right of the working people to work, leisure, material security in old age, and in case of sickness and disability, and to education. The reality of these rights is ensured by the socialist planned system of national economy, by the elimination of unemployment, the eight-hour working day, annual paid holidays for workers and employees, social insurance for manual and clerical workers at the expense of the State, provision for the working people of a broad network of sanatoria and rest homes, State protection of the interests of mother and child, universal compulsory elementary education, free seven-year education, State stipends to students and other material benefits, etc. Thus the victory of socialism in the U.S.S.R. created a firm economic base which guaranteed the actual realisation of the rights of the working people. This reflects the genuine socialist democracy of Soviet society and of the Constitution of the U.S.S.R.

Elimination of the Economic Inequality of Nations

In abolishing every kind of exploitation, socialism also roots out the causes which give rise to national oppression. The socialist system does away with the political, economic and cultural inequality of nations and secures the economic and cultural growth of all peoples without exception.

> "Whereas private property and capital inevitably disunite people, foment national strife and intensify national oppression, collective property and labour just as inevitably unite people, strike at the root of national strife and abolish national oppression. The existence of capitalism without national oppression is just as inconceivable as the existence of socialism without the liberation of the oppressed nations, without national freedom." (Stalin, "The Immediate Tasks of the Party in the National Question", *Works*, English edition, 1953, vol. v, p. 20.)

The political inequality of nations, and the system of national oppression and colonial exploitation were abolished in the U.S.S.R. with the establishment of the dictatorship of the proletariat. There remained the further task of wiping out the economic inequality of the nationalities and of putting an end to the economic and cultural backwardness inherited from the past, of a number of peoples. This task could only be carried out on the basis of socialist construction.

Among the population of the national regions of Russia, about 25 million people were living in a pre-capitalist stage of development, of whom 6 million people were cattle-breeding tribesmen who had not yet passed over to agriculture or outlived the patriarchal-clan system. It was necessary to help the peoples of the national regions to emancipate themselves from numerous survivals of feudal and patriarchal society, to root out the remnants of the colonising elements and to give these peoples the opportunity of building a socialist economy.

As has already been shown above, backward countries in throwing off the yoke of imperialism are able, with the assistance of the advanced countries of proletarian dictatorship, to move gradually on to the path of socialist construction, omitting the stage of capitalist development. In the Soviet Union, peoples of the formerly backward regions of Russia took such a path of

non-capitalist development. With the all-round assistance of the Russian and other peoples of the U.S.S.R., the peoples of the national regions accomplished the greatest leap forward from patriarchal and feudal forms of economy to socialism, omitting the capitalist path of development. The development of the peoples of Central Asia, some of the Transcaucasian peoples, a number of the Northern nationalities, and others, took place in this way. The construction of socialism in the U.S.S.R. was accompanied by the most careful consideration for the special economic conditions, historical background, way of life and culture, of each individual people.

In the U.S.S.R. the real economic and cultural inequality of the various nationalities, the inequality between Central Russia, which was moving forward, and the national regions which were lagging behind and which was inherited from the bourgeois landowning system, was abolished. The former national regions of Tsarist Russia were transformed from colonies and semi-colonies into independent and developed States—Soviet Socialist Republics. In the formerly backward national republics and regions, large-scale socialist industry was created, the collective farm system was consolidated, numerous national cadres of the working class (including skilled workers) were trained, and a national intelligentsia grew up. The powerful economic advance of the national regions was accompanied by a rapid growth of the living standards and cultural level of the working people.

While there was a general high speed of industrial growth in the U.S.S.R., the industry of the national republics grew with particular rapidity. In the U.S.S.R. as a whole, gross output of large-scale industry had increased by 1940 almost 12-fold compared with 1913. In the Kazakh S.S.R. it had increased 20-fold, in the Georgian S.S.R. 27-fold, in the Kirghiz S.S.R. 153-fold and in the Tadjik S.S.R. 308-fold.

Under Soviet power forty-eight nationalities acquired a written alphabet for the first time. Before the revolution a large majority of the population of the national regions was illiterate. As a result of the socialist revolution, the overwhelming majority of the population of the national republics had already become literate by 1939. The number of pupils in elementary and secondary schools had increased by 1940 as compared with 1914–15 as follows: Azerbaidjan S.S.R. 9-fold, Armenian S.S.R. 9·4-fold, Kazakh S.S.R. 10·9-fold, Turkmenian S.S.R. 35-fold, Kirghiz S.S.R. 47-fold, Uzbek S.S.R. 73-fold, and Tadjik S.S.R. 822-fold.

The building of socialism fundamentally changes the nature of nations. As a result of the revolutionary transformation of social relations, there appear in place of the bourgeois nations, of which capitalist society consists, new *socialist* nations, formed on the basis of the old bourgeois nations. Whereas capitalism divides nations into classes and groups with contradictory interests, socialism unites nations on the basis of social ownership and unity of interest. Each socialist nation is monolithic, consisting of working people led by the working class.

The victory of socialism strengthened the unity of economic and political interests of the peoples of the U.S.S.R. and brought about a flowering of their cultures—national in form, socialist in content.

The Soviet Union is a stable and vigorous multi-national State, based on the brotherly co-operation of the peoples and a model of the solution of the national question.

The U.S.S.R. Enters the Phase of the Completion of the Building of Socialist Society and of Gradual Transition from Socialism to Communism

With the victory of socialism, the U.S.S.R. entered a new period of its development, that of the completion of the building of socialism and of gradual transition from socialism to communism.

Communism is a social system in which there are no classes or class distinctions, all the means of production are public property, the level of the productive forces ensures an abundance of products and the guiding principle of social life is "from each according to his abilities, to each according to his needs".

Socialism and communism are two phases of one and the same communist social and economic formation. Socialism is the *lower* phase of the communist formation, while communism is the more mature phase, the *highest* phase of this formation. The development of socialism creates the material production basis of communism, an abundance of products, and an enormous rise in the living standards and cultural level of the people. Thus the completion of the socialist stage of development of society means at the same time the effecting of a gradual transition to communism. The whole people—the working class, the peasantry and the intelligentsia—are

profoundly interested in the creation of communist society, are active builders of communism, which denotes the greatest material and cultural flowering of society. Since under socialism there are no classes and social groups whose interests run contrary to communism, the transition to communism takes place gradually, without social revolution.

As a result of the pre-war Five-Year Plans, the Soviet Union overtook all the other countries of Europe and occupied second place in the world as regards total volume of industrial output. To create the material conditions for the transition to communism it is necessary for the U.S.S.R. to catch up the most highly developed capitalist countries as regards the extent of industrial output per head of the population and achieve a further tremendous development of the productive forces. The volume of industrial output, compared with the size of the population of a country is an index of its economic might. With the victory of socialism in the U.S.S.R., the task which V. I. Lenin advanced and which was extensively dealt with in the works of J. V. Stalin—to overtake and surpass the chief capitalist countries *in the economic sense*, i.e., as regards volume of industrial output per head of the population—has become an important, practical task. This task was defined by the Eighteenth Congress of the Communist Party (1939) as the *chief economic task* of the Soviet Union.

The *third Five-Year Plan* was an important stage on the road to communism. During the first three and a half years (1938–June 1941) the tasks of the third Five-Year Plan were successfully carried out. A new and considerable growth of industry, and above all of heavy industry, was achieved, together with a further strengthening and growth of agriculture.

The peaceful creative labour of the Soviet people in the building of communism was interrupted in 1941 by the treacherous invasion of the U.S.S.R. by Fascist Germany and its vassals.

The great Patriotic War of the Soviet Union (1941–5) was the most terrible war in Russia's history. The war confirmed that the U.S.S.R. possessed the most stable and durable social and State structure in the world. The Soviet system proved to be not only the best form of organisation for the economic and cultural growth of a country in the years of peaceful construction, but also the best form for mobilising the entire forces of the people to repulse the enemy in time of war.

The powerful economic base for the active defence of the country, used in wartime, had been created already during the pre-war Five-Year Plans as a result of the policy of industrialisation and collectivisation.

In 1940 the U.S.S.R. produced 15 million tons of *pig-iron*, or almost 4 times more than in 1913; 18,300,000 tons of *steel*, or 4½ times more than in 1913; 166 million tons of *coal*, or 5½ times more than in 1913; 31 million tons of *oil*, or 3½ times more than in 1913; 38,300,000 tons of *marketed grain*, or 17 million tons more than in 1913; 2,700,000 tons of *cotton*, or 3½ times more than in 1913.

The socialist system enabled the U.S.S.R. to create in the shortest possible time a well co-ordinated and rapidly-growing war economy. The economic basis of the Soviet State was shown to be incomparably more durable than the economy of the enemy States. Thanks to the superiority of planned socialist economy, the Soviet State, under unbelievably difficult conditions resulting from the temporary loss of a number of important regions of the country, was able simultaneously to carry out the maximum mobilisation and the most effective use of its material, labour and financial resources. To secure victory the Soviet State undertook on an extensive scale the construction of new factories, thereby ensuring an intensive growth of industrial output. Throughout the war, the quantity and quality of Soviet armaments rapidly increased. Despite the temporary occupation by the enemy of the most important agricultural districts, the collective and State farms supplied—without any serious interruption—the army and the country with foodstuffs, and industry with raw materials. The collective farm system survived the severe trials of war and demonstrated its vitality.

The working class, the peasantry and the intelligentsia, including Soviet women and the youth, undertook enormous sacrifices and displayed exceptional selflessness in labour. All-Union Socialist emulation yielded great results. Thanks to the growth in the productivity of labour in the heavy and above all in the defence industries, a considerable reduction in the costs of production was achieved. This enabled arms production to be greatly increased.

The moral and political unity of socialist society, the friendship of the peoples and Soviet patriotism, aroused the mass

heroism of the Soviet people, at the front and in the rear. The Communist Party, guiding the defence of the country, skilfully directed the entire forces of the people to the task of defeating the enemy. The decisive superiority of socialism and the indestructible stability of the Soviet rear, ensured to the Soviet Union the economic and military victory which it won in association with its Allies in mortal combat against imperialist Germany, which disposed of the resources of many European countries, and against imperialist Japan. The Soviet people, which bore the main brunt of the war, not only defended the freedom and independence of their country and their socialist achievements, but also helped liberate the peoples of Europe from the Hitlerite yoke.

The war inflicted enormous losses on the national economy of the U.S.S.R.

The fascist invaders burned down and destroyed 1,710 towns, including a number of large industrial and cultural centres, more than 70,000 villages and hamlets, 31,850 industrial enterprises, ruined 98,000 collective farms, 1,876 State farms, 2,890 machine-tractor stations, etc. The total losses which the fascist invaders caused to the national economy of the U.S.S.R. and to Soviet citizens amounted to 679,000 million roubles at State valuation. During the war years there was a considerable reduction of civil industrial output, and agricultural production and transport suffered heavily.

Socialist society in the U.S.S.R. withstood all the trials of the exceptionally hard war. This proved the stability of the Socialist relations of production that had been established, their superiority over capitalist relations.

Any other State, even the largest capitalist State, suffering such losses, would have been inescapably thrown back scores of years, and would have been turned into a second-rate Power. But thanks to the advantages of the socialist system, the U.S.S.R. successfully coped with the most difficult task of overcoming the effects of the war. Having brought the war to a victorious conclusion, the Soviet Union was able, in the course of a few years and with its own resources, not only to reach the pre-war level of production, but even to leave it far behind. The *fourth Five-Year Plan* (1946–50) was successfully fulfilled. Its main tasks had been to restore the devastated areas of the country, restore the pre-war level of industry and agriculture and subsequently to surpass this level considerably.

The fourth Five-Year Plan for industry was fulfilled ahead of time.

The successful fulfilment of the fourth Five-Year Plan meant a big step forward in the economic and cultural development of Soviet society.

The further advance to communism of the U.S.S.R. formed the task of the *fifth Five-Year Plan* (1951–5) and of the decisions which the Communist Party and the Soviet Government adopted during those years, decisions which aimed at a new, powerful advance in industry and agriculture for the purpose of obtaining a further increase in the standard of living and culture of the Soviet people. The tasks for industry of the fifth Five-Year Plan were also fulfilled ahead of schedule.

The victory of socialism in the U.S.S.R. was of enormous *international importance*. It was a new and powerful blow to the world imperialist system, and shook its foundations even further. The consolidation of socialism demonstrated with full force the superiority of the socialist system of national economy over the capitalist system. Capitalism required approximately one hundred years, and feudalism about two hundred years to prove their superiority over the preceding modes of production. The socialist economic system demonstrated its indisputable superiority to capitalism already in the years of the transitional period, that is, in less than twenty years. The correctness of Marxism, as the revolutionary world-outlook of the working class, the correctness of Lenin's theory of socialist revolution, were confirmed. This has fortified the belief of the working masses in the strength of the working class and in the final victory of socialism throughout the world.

BRIEF CONCLUSIONS

(1) With the completion of the transitional period from capitalism to socialism in the U.S.S.R., the capitalist elements were eliminated from every sector of the economy. The socialist system became the sole system in the national economy, and the economic basis of socialist society came into being. The victory of socialism was reflected and given legislative force in the Constitution of the U.S.S.R.—the most democratic constitution in the world.

(2) Socialism is a system founded on social ownership of the means of production in its two forms: State (public), and co-operative and collective farm property. In this system there is no exploitation of man by man, the national economy develops according to a plan, for the purpose of fully satisfying the growing needs of the working people by means of an uninterrupted growth of production, and the principle of distribution according to work is put into effect.

(3) Socialist society consists of two friendly classes, the working class and the peasantry, together with an intelligentsia which is thoroughly rooted in these classes. The victory of socialism brought about a fundamental improvement in the material and cultural position of the working people. It eliminated the contradiction between town and country, between mental and physical labour, put an end to the inequality of nations and gave rise to new socialist nations.

(4) With the victory of socialism, the U.S.S.R. entered the period of the completion of the building of socialist society and of the gradual transition from socialism to communism. Thanks to the superiority of the socialist system, the U.S.S.R. won economic and military victory in the great Patriotic War. After the war, the Soviet Union restored the national economy in the shortest possible time, achieved its further powerful advance and is now successfully continuing along the road to communism. The victory of socialism in the U.S.S.R. is internationally of historic importance. It has demonstrated in deeds the superiority of socialism over capitalism.

B. THE SOCIALIST ECONOMIC SYSTEM

CHAPTER XXVII

THE MATERIAL PRODUCTION BASIS OF SOCIALISM

Main Features of the Material Production Basis of Socialism

The material production basis of socialism is large-scale machine production in all branches of the national economy. This is based on the highest technique and the labour of workers who have been freed from exploitation.

Socialist production is integrated by social ownership of the means of production, and develops in a planned way in the interests of the whole of society. Its development does not encounter those obstacles which are caused by private ownership of the means of production.

Socialist production is the largest and most concentrated production. Under socialism, large-scale production has undivided predominance in agriculture as well as in industry, whereas under capitalism small-scale individual peasant farmers are numerically predominant in agriculture. Socialism is free from the contradictions and restrictions in the application of machine techniques which are characteristic of capitalism.

In bourgeois society machinery is an instrument of exploitation and is only introduced when it increases the profits of the capitalists by means of economies in the wage bill. In socialist society machinery is used wherever it brings about a saving of labour for society, lightens the labour of the workers and peasants, and promotes an increase in the welfare of the people. In socialist society there is no unemployment, consequently machines cannot be the rival of the working people. Hence the working people eagerly welcome the use of machines in industry.

As a result of the elimination of private ownership of the means of production, all the achievements of modern science and technique become, under socialism, the property of the whole of society. In seeking to satisfy the constantly growing needs of the mass of the people, socialist production requires uninterrupted development and perfection of techniques; old

techniques must be replaced by new, and they in turn by newer ones. Hence the necessity for systematic work to produce, master and introduce into industry new machinery, mechanisms, appliances and apparatus, new types of material and advanced technology. The Socialist State, which concentrates in its hands the basic means of production and accumulation, can make large-scale capital investments in the national economy to ensure uninterrupted technical progress, and can carry out capital construction on a large scale and at a speed which is not possible for capitalism.

Socialism ensures the systematic introduction of modern machine techniques in all branches of production, including agriculture.

In socialist society the position of the workers in production is fundamentally changed. Freed from exploitation, the labour of the workers, the collective farmers and the intelligentsia is the very foundation of socialist society. The working people work for themselves, for society, and not for the exploiters. They are therefore profoundly interested in perfecting production, using the highest techniques and most efficiently utilising existing techniques. At the same time socialism brings about a constant and rapid rise of the general cultural level and technical skill of the workers. All this gives rise to the creative activity of the working people in developing production, perfecting techniques and improving technology and the organisation of labour.

In contrast to capitalism, socialism secures the uninterrupted and rapid growth of the productive forces.

Socialist Industry

Socialist industry is a highly concentrated and technically advanced industry, organised on the basis of social ownership. It plays a leading role in the national economy, equipping all sectors of the economy with modern techniques. This is achieved by the more rapid growth of the branches producing the means of production, and a high level of development of the engineering industry. Heavy industry is the corner-stone of socialist economy.

Industry plays a major role in securing the growth of national consumption. The light and food industries, equipped with

modern techniques, increase the output of goods for the population from year to year.

The basic productive stocks of industry in the U.S.S.R. had grown to more than double the 1940 level by 1954, and to 24 times the 1913 level. Gross production of large-scale industry in 1954 had increased (in comparable prices) 35-fold compared to 1913. Compared with 1940, total industrial production had increased more than 2·8-fold by 1954, and nearly 4-fold in the engineering and metal-working industry. Production of various major branches of heavy industry had risen between 1913 and 1954 in the following way: coal from 29 million tons to 347 million tons, oil from 9 million tons to 59·3 million tons, steel from 4,200,000 tons to 41,400,000 tons, cement from 1½ million tons to 19 million tons, electricity output from 1·9 milliard kW/hrs. to 149 milliard kW/hrs.

Socialist industry is the most concentrated industry in the world. Under socialism, *concentration of production* is carried out in a planned way, and is accompanied by a general advance of the national economy in the interests of the whole of society. Under capitalism, on the contrary, concentration takes place unplanned, and is accompanied by the ruin and destruction of small-scale and middling enterprises and by the establishment of the domination of monopolies.

> "We are a land of the most concentrated industry. This means that we can build our industry on the basis of the best technique and thereby secure an unprecedented productivity of labour, an unprecedented rate of accumulation." (Stalin, "The Tasks of Business Executives", *Works*, English edition, 1954, vol. XIII, pp. 35–6.)

In the conditions of socialism the *combination of production* is extensively developed. This enables raw materials and fuel supplies to be more fully utilised, reduces transport overheads and speeds up the production process.

In 1940, 71 per cent of all workers, and 84 per cent of all output in the industry of the U.S.S.R., were concentrated in enterprises with an annual output exceeding 5 million roubles in value (in fixed 1926–7 prices). By 1954, these figures had risen to 80 per cent of all workers and 92 per cent of all industrial output.

Comparing data on the concentration of industry in the U.S.S.R. and in the U.S.A. (for the sake of comparison, the classification according to the numbers of manual and clerical workers is taken in both cases) it will be seen that in the manufacturing industries of the U.S.S.R. in 1954, 64 per cent of all workers and 72 per cent

of all industrial output were concentrated in enterprises employing more than 1,000 workers; in the manufacturing industries of the U.S.A. in 1952, 33 per cent of workers and about 36 per cent of industrial output were concentrated in similar enterprises.

Owing to the fact that social ownership of the means of production prevails in socialist society, especially favourable conditions have been created for the application of specialisation and co-operation of industry.

Specialisation of industrial production is the concentration of enterprises on a particular type of product, on separate parts and components or on separate operations in the manufacture of a product. Specialisation reflects the planned utilisation by society of the advantages of the division of labour between different enterprises. It enables highly productive equipment to be introduced as well as standardisation and mass production methods, which secure a considerable rise in the productivity of labour.

The *co-operation* of industrial enterprises under socialism is the planned establishment of permanent productive connections between enterprises which participate jointly in the manufacture of a given product, but are economically independent of one another. Co-operation of enterprises within the limits of the same economic region, which avoids long transport hauls, is of great importance. Planned co-operation of enterprises is an important factor in the growth of productivity of social labour. Socialist society sets itself the task of extensively applying specialisation and co-operation as the most expedient forms of the organisation of production.

The development of industry and its technical re-equipment are accompanied by an increase in the numbers of the working class and a rise of the cultural and technical level of the workers. The introduction of new techniques increases the numbers and proportion of skilled workers and decreases the numbers and proportion of unskilled, manual workers. The number of engineering and technical workers is constantly on the increase.

In the U.S.S.R., a powerful and technically advanced *transport system* has come into existence. As defined by Marx, transport is the fourth branch of material production (after the extractive industries, manufacturing industries and agriculture). It unites all branches of the national economy and the

economic regions of the country, playing an important role in the production process and in the distribution of material wealth.

The function of transport increases in a planned socialist economy, developing at a high rate and characterised by its many-sided links with different branches of production and economic regions. In outlining the function of the railways, Lenin pointed out that they are, "one of the manifestations of the very clear link between town and country, between industry and agriculture, on which socialism is wholly based". (Lenin, "Closing remarks in the debate on the Report on Immediate Tasks", April 29, 1918, *Works*, Russian edition, vol. XXVII, p. 277.)

The concentration of all forms of transport (rail, water, road and air) in the hands of society, has eliminated competition between the various forms of transport which is characteristic of capitalism. It has opened the way to the planned co-ordination of their work. A *unified transport system*, on a country-wide scale, has been created in the U.S.S.R., combining and planning all forms of transport.

The unified transport system under socialism is built on the basis of advanced transport technique: general introduction of the latest types of high-capacity rolling-stock, mechanisation of loading and unloading operations, perfection of the permanent way, etc.

The basic productive stocks of transport in the U.S.S.R. had increased 7-fold by 1954 compared with 1913. Freight turnover of all forms of transport had increased almost 9-fold, and rail-freight turnover 13-fold, by 1954 compared with 1913.

Socialist Agriculture

The socialisation of the formerly scattered peasant economy, and the setting-up of collective and State farms, made possible the widespread use of machinery and the introduction of advanced agricultural technique: it created the conditions for a big increase in agricultural production.

Socialist agriculture in the U.S.S.R. is based on social ownership and is the largest in the world and highly mechanised. It consists of agricultural enterprises—collective farms, machine and tractor stations and State farms.

The size of collective farms has been greatly increased as a result of the amalgamation carried out in 1950–1 by decision

of general meetings of the collective farmers. On January 1, 1955, the country had 89,000 collective farms, instead of the 254,000 existing on January 1, 1950. Whereas before the amalgamation each collective farm had an average of 1,470 acres of ploughland, at the beginning of 1955 each had 4,870 acres of ploughland.

The machine and tractor stations have provided the collective farms with the material and technical basis of large-scale machine production. The Soviet State has created a complex system of machine and tractor stations in the grain, flax, cotton, sugar-beet and market gardening areas. Special machine and cattle-breeding stations have been set up for the mechanisation of arduous work in cattle-breeding, and meadow amelioration stations for the mechanisation of land drainage and improvement of meadows and pastures. The first electrified machine and tractor stations have been set up, which use electricity on a large scale in collective farming. All M.T.S., depending on the type of production of the collective farm, have appropriate agricultural machinery and qualified specialist personnel. On January 1, 1955, there were about 9,000 M.T.S. and other specialised stations in the U.S.S.R., servicing the collective farms and providing a high level of mechanisation of agricultural production.

In the agriculture of the U.S.S.R. an important role is played by large State enterprises—the State farms, which are equipped with the latest techniques. On January 1, 1955, there were more than 5,000 State farms—grain-growing, livestock (meat and dairy, pig, sheep, poultry and horse farms), cotton-growing and other types of farms.

Socialist industry has equipped agriculture with advanced techniques. To meet the peculiarities of agriculture there has been brought into being on the basis of tractor-power a wide range of machinery for carrying out the main agricultural operations for a series of major crops: ploughing, sowing, row-tillage and harvesting.

On July 1, 1955, there were in Soviet agriculture more than 1,400,000 tractors (in terms of 15 h.p. units), 350,000 grain combine harvesters, more than 450,000 lorries and many other agricultural machines. The mechanisation of agricultural operations had as a consequence increased.

The introduction of machinery has fundamentally altered the

structure of power resources in agriculture. In 1916 draught cattle accounted for 99·2 per cent, and mechanical power only 0·8 per cent of all power resources in agriculture. In 1940 draught cattle accounted for 22 per cent and mechanical power 78 per cent of power resources; while by the beginning of 1955, they accounted for 7 per cent and 93 per cent respectively (including tractors 33 per cent, lorries 39 per cent, combine motors 15 per cent, electricity plant 4 per cent and other forms of motive power 10 per cent).

The socialist transformation of agriculture has eliminated the primitive, centuries-old, three-field system and has made possible the application of new, most advanced systems in agriculture. The main features of these systems are the general introduction of the latest techniques and the achievements of agronomy, correct crop rotations with the widespread cultivation of fodder, vegetable and technical crops, the use of artificial and organic fertilisers, irrigation of dry regions, draining of marshes, etc.

The proper operation of socialist agriculture presupposes a definite specialisation of agricultural enterprises. *Specialisation* of socialist agricultural enterprises takes the form of planned selection for each enterprise, depending on the natural and economic peculiarities of a particular district or zone, of the main branches of production, and together with them the development of supplementary branches. Thus specialisation does not reject, it presupposes the development of *mixed farming* with proper combination of the main and supplementary branches. Such farming makes possible the most productive use of land and labour-power.

Alongside the enlargement of the scale and the technical re-equipment of agriculture, there takes place the training of new cadres of agricultural workers who have mastered modern advanced techniques and agronomic science. In the U.S.S.R. agronomic scientific achievements have become the property of the broad masses of the peasantry for the first time in history. The mass introduction of new techniques has called into being new categories of workers in mechanised agriculture: tractor and combine operators, drivers, mechanics, operators of threshers, flax-pullers, cotton harvesters and other machines. The collective farm system has produced numerous skilled directors and organisers of production—collective farm chairmen, team leaders, agronomists and livestock specialists, heads of farm sections and others.

Methods of Technical Progress in a Socialist Economy

The main directions of technical progress in a socialist economy are: the perfecting of instruments of production and technological processes, mechanisation and automation of labour processes, electrification of the national economy and widespread use of chemicals in production, and the use of atomic energy for peaceful purposes.

Under socialism mechanisation of labour processes plays a tremendous role in technical progress.

The basis of technical progress lies in *improving the instruments of production* in such a way as to raise the productivity of machinery, making it work more economically and reliably, lengthen its useful life, increase the automation of controls, and lower the expenditure of metal and other materials in the production of the machines. Improving the instruments of production is inseparably connected with improving the technological processes, methods of processing and utilising raw and other materials, the introduction of new types of raw and other materials, the application of high and very high speeds, pressures and temperatures.

Socialism offers wide opportunities for constantly improving the instruments of production and technological processes. The development of the material and industrial basis of socialism is impossible without a determined struggle against technical hitches and routinism; it requires the speedy, wide-scale introduction into industry of all the achievements of Soviet and foreign advanced science and techniques.

During the years of Soviet Power an extensive network of scientific research institutes and designing organisations has been established, and workers' inventions and the mass movement of innovators in production have been given wide support.

Soviet technologists are successfully solving a series of new technical problems in the field of designing new machinery and mechanisms for all branches of industry. Soviet designers have created, for instance, such machines as mining combines, numerous agricultural machines (potato-planting and potato-lifting machines, flax-picking combines, beet-lifting combines), new types of modern machinery in the field of energetics, powerful building mechanisms, several new types of metal-cutting lathes and so on.

An important factor in technical progress is the utmost utilisation of the scientific and technical achievements of foreign countries. In a number of cases the machinery that is made in Soviet enterprises is not up to the standard of the foreign types produced abroad. The advantages of the socialist system provide every opportunity for accelerating technical progress, for overcoming the backwardness

that exists in some sectors of industry, so as to surpass the scientific and technical achievements in the capitalist countries as quickly as possible.

Mechanisation is the replacement of manual labour by labour effected with the aid of machinery. The consistent mechanisation of labour operations is an economic necessity under socialism. The uninterrupted and rapid growth of socialist production is possible only by means of the constant perfecting of techniques and the all-round mechanisation of labour processes.

Mechanisation of the main and most arduous production processes is being consistently carried out in all branches of the national economy in the U.S.S.R.

In the industry of the U.S.S.R. mechanisation has reached a high level. In the coal industry, where heavy manual labour was the universal rule before the revolution, mechanisation on the basis of general introduction of coal-cutters, electrical means of transport and loading devices, amounted already in 1940 to 94·8 per cent for cutting and stripping operations, 90·4 per cent for conveying operations, 58·4 per cent for hauling operations, and 86·5 per cent for loading into rail wagons. In the post-war years the mechanisation of cutting, stripping and conveying, as well as of underground transport and loading into rail wagons, has been fully completed. Great successes have also been achieved in mechanising other branches. Thus, for example, in the construction of hydro-electric stations, such outstanding achievements of Soviet technology as the new powerful excavators, bulldozers, earth-diggers and other machines are being used. The 494 cubic-foot walking excavator of the Urals Machinery Works can scoop up more than 88 million cubic feet of earth a year, replacing the physical labour of 7,000 workers.

By 1954 autumn and spring ploughing operations in the collective farms had been almost completely mechanised; winter sowings 95 per cent, spring sowings 88 per cent. Sowings of cotton, sugar-beet and other industrial crops had been almost fully mechanised. Over 40 per cent of the area in the collective farms sown to potatoes was planted by the machine and tractor stations. Of all the grain crops, 82 per cent was harvested by combines, of the sunflower crop—93 per cent. The mechanisation of the main field work on the collective farms is almost complete. In the State farms the most important agricultural work is performed in the main by machinery. However, the existing achievements in the field of mechanisation of agriculture are not sufficient from the viewpoint of satisfying society's growing requirements for agricultural produce. The expenditure of human labour per unit of output in collective and State farms is still high. There is a need for further wide development of mechanisation

in cattle-breeding, vegetable cultivation, horticulture, transporting, loading and unloading of agricultural products, irrigation works and drainage of marsh lands.

In socialist economy, complex mechanisation is being constantly extended. *Complex mechanisation* means mechanisation of all the stages of the production process which are connected with each other, including both the main and also the auxiliary stages, and is based on a system of mutually complementary machines. It eliminates interruptions in the chain of mechanisation of production. As a result of complex mechanisation a *system of machinery* covering the whole production process comes into being.

The highest stage of mechanisation is the *automation* of production, which is the use of self-regulating automatic machines. Closely connected with automation is the system to *telemechanics*, which is the remote management and control of the working of machines. Where the entire complex of machinery covering a production process as a whole is self-regulated, there is an *automatic system of machinery*. An automatic system of machinery carries out all the production processes required for the working up of raw material into the finished product, without direct human interference, and only requires supervision by the worker.

During the post-war years definite successes in regard to automation of production processes have been achieved in a number of branches of industry in the U.S.S.R. In the enterprises of the ferrous metallurgical industry of the U.S.S.R., 95 per cent of all pig-iron is smelted in blast-furnaces with automatic regulation of the heat blast and about 90 per cent of all open-hearth steel is smelted in furnaces equipped with automatic thermal regulation. In heavy metallurgy, automation of blast and open-hearth furnaces has increased their productivity 7–10 per cent and brought about a 6 per cent reduction in fuel consumption. In the engineering industry the stock of automatic and semi-automatic metal-working lathes, automatic forge pressers and also automatically-controlled gauging instruments increases year by year. The use of automatic equipment in the chemical, paper, oil-refining and other industries is increasing. Automatic systems of machinery in the U.S.S.R. take the form of automatised lines of machine tools and other mechanisms and of completely automatised enterprises.

The wide use of mechanisation in socialist economy is the basis for the rapid growth in labour productivity and increasingly reduces the gap between physical and mental labour.

Reconstruction of all branches of the economy on the basis of large-scale machine production and the systematic mechanisation of the productive processes is closely bound up with *electrification*. Electricity is the technical basis of modern large-scale production.

Socialism ensures the planned introduction of electricity into all sectors of the national economy. Electrification under socialism is characterised in the first place by centralisation of electric power output and concentration of capacity in large electricity stations, and by rapid development of high-voltage electric transmission lines combining separate stations into powerful regional or inter-regional systems, with the perspective of a unified high voltage net-work covering the entire country; secondly, by widespread construction of hydro-electric stations and the systematic raising of their share in total electricity output (which is a most important means of improving the power balance of the country); thirdly, by thermal power stations for large towns and industrial centres.

Electrification of industry changes the appearance of factories and mills. Instead of a central generator with a complex transmission system, individual electric drive has been introduced into almost all enterprises. Electrification of the working machinery provides the power basis for complex mechanisation and automation. With the application of electricity, new branches of industry have sprung up—electro-metallurgy of ferrous and non-ferrous metals, electro-chemistry and also new methods of metal-working.

The construction of powerful hydro-electric stations on the Volga, Dnieper, Don, Kama, Angara, Irtysh, Ob and other rivers which has been undertaken in the fifth Five-Year Plan is of great importance for the further electrification of the U.S.S.R. Some of these schemes are the largest in the world. Their construction is making possible the complex solution of the problem of obtaining cheap electric power on an enormous scale, of the widespread development of electrification in agriculture and transport, of the creation of new industries depending on electric power, improvement of navigation, etc.

In the four years of the fifth Five-Year Plan, powerful hydro-electric stations, equipped with the very latest techniques, began to operate: Tsimlyansk, with a capacity of 164,000 kilowatts,

Gyumush—224,000 kilowatts, Upper Svir—160,000 kilowatts, Mingechaur—357,000 kilowatts, the first section (126,000 kilowatts) of the Kam, whose total capacity will be 500,000 kilowatts, and others. In the same period large thermal electric stations began to operate: Mironovskaya with a capacity of 400,000 kilowatts, Slavyanskaya—200,000 kilowatts, Yuzhny Kuzbas—400,000 kilowatts, the first section (300,000 kilowatts) of Cherepetskaya, which is now being expanded to 600,000 kilowatts, and a number of others. The new Kuibyshev, Gorky, Kakhovka and other powerful hydro-electric stations were providing current for industry in 1955. The capacity of the hydro-electric stations under construction in the U.S.S.R. will be twice that of all the Soviet hydro-electric stations that were operating at the beginning of 1954.

In the post-war years there has been a process of introduction of electricity into agriculture. By the beginning of 1955 the capacity of rural power stations had increased 6-fold compared with 1940, and 40 per cent of all collective farms were using electric power. The mechanisation of threshing operations, as well as a number of production processes in livestock farming, is taking place in many collective and State farms, on the basis of electricity (preparation of fodders, water supply, milking, sheep-shearing, etc.).

The progress of modern techniques is also reflected in the ever-growing development of *chemistry* and in the application of chemical methods of treating matter. Chemical methods imply the speeding up of production processes, the fullest utilisation of raw materials and the creation of new types of raw materials. The chemical industry in the U.S.S.R. has become a powerful factor in the technical development of the entire national economy. Modern chemical production is, as a rule, automatised. It is carried on uninterruptedly in closed apparatus, with automatic control and regulation and without direct human interference. Chemistry is a most important prerequisite for raising crop yields. The creation of an abundance of consumer goods is linked with the widespread use of chemicals in agriculture.

The climax of the contemporary stage of technical development was the discovery of methods of obtaining and using atomic energy. The Soviet Union is the first country to utilise atomic energy for peaceful purposes. The U.S.S.R. was the first country in the world to operate an industrial electric station by means of atomic energy, with a useful capacity of 5,000 kilowatts.

The Location of Socialist Production

Under socialism a new *location of production* takes shape and, with it, a new system of communications between branches of production and regions of the country.

In bourgeois society competition and the hunt for profit lead to the unequal and irrational location of production. Industry is concentrated without plan in a small number of centres while vast territories, particularly the colonial regions, are condemned to industrial backwardness. Under socialism the location of industry takes place in a planned way for the purpose of raising the productivity of social labour, increasing the strength of the Socialist State and raising the living standards of the working people.

In locating socialist industry, the Soviet State bases itself on the following principles which are determined by the economic laws of socialism.

First, production to be sited as close as possible to the sources of raw materials and to the regions consuming industrial and agricultural output. In sketching out the basis for a plan for re-organising industry and for the general economic revival of the country, Lenin pointed out:

> "This plan must include:
> rational *location* of industry in Russia, from the point of view of the proximity of raw materials and the possibility of reducing wastage of labour to the limit in passing from the processing of the raw material, through all the subsequent stages of processing the semi-finished product, right up to the receipt of the finished product." (Lenin, "Draft Plan for Scientific and Technical Work", *Works*, Russian edition, vol. XXVII, p. 288.)

Location of production in this way makes possible the better utilisation of natural resources and the elimination of irrational hauls; it provides a considerable economy in labour for society as a whole, and accelerates the rate of growth of the national economy.

Secondly, the planned territorial division of labour between economic regions, combined with complex economic development within these regions, taking into account the natural conditions of each region and the economic expediency of producing

particular industrial goods and agricultural products. The complex development of economic regions which takes into account the needs of each region for fuel, building materials, mass-produced products of light industry and foodstuffs, reduces abnormally long and other irrational hauls, and promotes the use of local raw material resources.

Thirdly, the planned location of industry throughout the territory of the country, securing the formation of new towns and industrial centres in formerly backward agrarian districts and thereby bringing agriculture and industry closer together. This helps to abolish the essential distinction between town and country.

Fourthly, the elimination of the real economic inequality of peoples and the rapid development of the economy of formerly backward national regions. This is the material foundation for strengthening the friendship and co-operation of the peoples.

Besides this, the location of socialist industry takes into account the interests of strengthening the defensive capacity of the Socialist State, which determines the need for a particularly rapid growth of numerous branches of industry in the interior of the country.

During the years of Soviet power much work was done to eliminate the unequal location of production inherited from capitalism.

The siting of industry close to raw material resources was reflected above all in the rapid development of the eastern regions of the country and the creation of new fuel and metallurgical bases, new centres of engineering and light industry, in the Urals, Western Siberia, Central Asia and Kazakhstan. The newly-created industrial areas have become economic and cultural centres, changing the whole character of these districts and regions. The creation of a powerful industrial base in the East was one of the most important factors in the victory of the Soviet Union in the great Patriotic War.

During the Patriotic War and post-war years, industry was still further developed in the eastern districts—the Volga region, the Urals, Siberia, the Far East, the Kazakh S.S.R. and the Union Republics of Central Asia.

In 1954 approximately one-third of the country's entire industrial output was produced in these regions: more than

60 per cent of the total oil, over half the total steel and rolled metals, almost half the total coal and more than 40 per cent of the output of electrical power. While total industrial output in the U.S.S.R. had increased 2·8 times in 1954 compared with 1940, the total industrial output in the eastern areas had increased four times.

In the Uzbek, Kazakh, Kirgiz, Turkmenian and Tadjik Soviet Republics, with a population of less than 20 million, electric power output in 1954 was a little over four times as great as in the Eastern countries bordering on the U.S.S.R.—Turkey, Persia, Afghanistan and Pakistan combined, with a population of more than 130 million.

The development of socialist industry in a number of economic regions which formerly had no industry has meant that the old division between industrial and agrarian regions belongs essentially to the past. Important changes have taken place in the location of agricultural production in the U.S.S.R., testifying to the fact that the former one-sided specialisation of agriculture of pre-revolutionary Russia has been successfully eliminated. A powerful grain base has been created in the eastern regions of the U.S.S.R., agricultural crops have been pushed far to the north, and food producing areas have grown up around the towns and industrial centres.

In spite of the successes achieved, there are still serious shortcomings in the location of socialist industry. Thus, new enterprises are still not infrequently built in the old industrial areas without taking into account the supply of local raw materials and fuel for these enterprises. At the same time there is a serious lag in the development of industrial construction in the east of the country, particularly in Siberia, the Far East, Central Asia and Kazakhstan, where there are adequate resources of raw materials and power.

One of the most important factors in the further progress of socialist economy is the elimination of these shortcomings and the improvement of the location of industry.

Socialist location of production ensures the most effective utilisation of the natural wealth and labour resources of the country, and makes it possible to raise the productivity of social labour, accelerate the growth of production and strengthen the economic might of the U.S.S.R.

BRIEF CONCLUSIONS

(1) Large-scale machine production, embracing all branches of national economy and based on advanced technique and the labour of workers free from exploitation, is the material production basis of socialism. In socialist economy, machinery serves to economise and lighten the labour of workers and peasants and to raise the living standards of the people. Socialist industry in the U.S.S.R. is the most highly concentrated in the world, technically advanced and centralised on a country-wide scale. It serves as a basis for the development of all branches of the economy. Socialist agriculture is the largest in the world and highly mechanised.

(2) The material production basis of socialism rests on the latest achievements of modern advanced science and technique. Socialism eliminates inequalities in the use of machine techniques between different branches and processes of production, which are natural to capitalism, and ensures the consistent application of new techniques in all branches of the national economy. The chief lines of development of technique under socialism are perfecting of the instruments of production and improvement of technological processes, mechanisation and automation of labour processes, electrification of the national economy, wide use of chemicals and the application of atomic energy for peaceful purposes.

(3) Socialism has secured the planned and rational location of production, siting it close to the sources of raw materials and consuming regions, has overcome the economic backwardness of the national regions and has brought industry and agriculture closer together. Socialist location of production makes possible the efficient utilisation of natural and labour resources, leads to enormous economies in the transport of raw materials and finished products, and is an important factor in accelerating the growth of socialist production and strengthening the defensive capacity of the country.

CHAPTER XXVIII

SOCIAL OWNERSHIP OF THE MEANS OF PRODUCTION—THE FOUNDATION OF THE PRODUCTION RELATIONS OF SOCIALISM

The Socialist System of National Economy and Socialist Property

The economic basis of socialist society is the socialist system of national economy and socialist ownership of the means of production, which have been consolidated by elimination of the capitalist economic system, the abolition of private ownership of the means of production and the eradication of exploitation of man by man.

Exposing the concoctions of the apologists of capitalism who asserted that the programme of scientific Communism was a programme for abolishing property altogether, Marx and Engels wrote: "The distinguishing feature of Communism is not the abolition of property generally but the abolition of bourgeois property." (Marx and Engels, *The Communist Manifesto*; Marx and Engels, *Selected Works*, 1948, vol. I, p. 21.) No society is conceivable without the predominance of a historically determined form of property. In eliminating the private ownership of the means of production, the proletarian revolution sets up socialist ownership of the means of production in its place.

In socialist society the means of production have ceased to be capital, that is, to be a means of exploitation. In socialist society there are no longer classes with a monopoly of property in the means of production and classes deprived of property in the means of production. In the conditions of socialism the means of production are *social property*. The main elements in the production process—labour-power and the means of production—are here united on a new basis, that of large-scale socialist production in both town and country. Since the means of production have ceased to be capital, there is no longer a division of accumulated labour into constant and variable capital under socialism. The whole mass of accumulated labour

in society, that is, the whole mass of the means of production and the means of consumption, at the disposal of society for further production, serves the interests of the people and cannot provide a basis for exploitation. "In bourgeois society, living labour is but a means to increase accumulated labour. In communist society, accumulated labour is but a means to widen, to enrich, to promote the existence of the labourer." (Marx and Engels, *The Communist Manifesto*; Marx and Engels, *Selected Works*, 1950, vol. 1, p. 22.)

Under socialism, social ownership is completely predominant in all spheres of the national economy. In 1950 in the U.S.S.R., socialist property embraced 99·4 per cent of all the means of production in use in the country. With the consolidation of the undivided predominance of social property, the false theory of bourgeois ideologists about the eternity and immutability of private capitalist property has been completely discredited.

The conversion of the means of production into social property, and the emancipation of the workers from all forms of exploitation, signified the consolidation of the new socialist system of national economy.

The *socialist system of national economy* differs fundamentally from the capitalist economic system and has decisive advantages over it.

(1) In the socialist system of national economy the means of production are social property, that is, they belong to the working people in the person of either the socialist State or of the collective farms and other co-operative unions. Consequently, the products of labour also belong to the working people. In the capitalist economic system the means of production are the private property of the capitalists and landowners and consequently the products of labour also belong to the capitalists and landowners.

(2) The socialist system of national economy means that the exploitation of man by man has been abolished, and that the purpose of production is the maximum satisfaction of the growing material and cultural needs of the whole of society. Capitalist production is for the purpose of securing the maximum capitalist profit through the exploitation, ruin and enslavement of the working people.

(3) Socialist production develops in a planned way and without interruption. The steady rise in the living standards

and purchasing power of the working people are a stimulus to increased production and a secure guarantee of freedom from crises of overproduction and unemployment. Capitalist production develops without plan. The growth of production runs up against the proletarian condition of the working people and the relative reduction of their purchasing power. This inevitably brings crises of overproduction, growing unemployment and impoverishment of the masses.

(4) In socialist society each worker receives material wealth according to the quantity and quality of his labour. The distribution of the national income serves to raise the welfare of the working people, extend socialist production in town and country and increase the social wealth. Under capitalism, distribution of the national income takes place for the purpose of enriching the exploiting classes and their numerous parasitic menials.

(5) In the socialist system, State power belongs to the working people of town and country. Workers, peasants and intelligentsia are active builders of communism, working for themselves and for the good of the whole of society. The capitalist economic system means that power in society belongs to the capitalists, who use this power to maintain a state of affairs which is satisfactory and advantageous to the propertied classes, while the proletariat and the working masses of the peasantry are exploited classes, compelled to work for the capitalists and landowners.

Social property is the foundation of the socialist system, the source of wealth and power of the Motherland, the means to a rich and cultured life for all the working people. It is sacred and inviolable. The Constitution of the U.S.S.R. obliges every citizen in Soviet society to safeguard and strengthen social property. Persons attacking socialist property are enemies of the people and are punished by law.

Two Forms of Socialist Property

In the first phase of communism, social or socialist property exists in two forms: (1) State property and (2) co-operative and collective farm property. *State socialist property* is the property of the whole of the Soviet people, vested in the Socialist State of workers and peasants. *Co-operative and collective farm* socialist

property is the property of individual collective farms and co-operative unions.

To the two forms of socialist property there correspond *two forms of socialist economy*: (1) State enterprise (factories, mills, State farms, M.T.S., etc.) and (2) co-operative (collective) economy (collective farms, industrial artels, enterprises of the consumer co-operatives).

The existence of the two forms of socialist property is the result of the historical conditions in which the proletarian revolution and the construction of communism take place. Having won State power, the working class finds in existence different forms of private property which have evolved in the course of history: on the one hand, large-scale capitalist property based on the exploitation of hired labour and, on the other, small-scale private property of the peasants, artisans and handicraftsmen which is based on their personal labour. In the course of the socialist revolution large-scale capitalist property is expropriated and passes into the hands of the socialist State. Hence there arises State (public) socialist property. At the same time the programme of scientific communism rejects the expropriation of the peasants, artisans, and handicraftsmen as a hostile and criminal method. Small-scale and middling commodity producers voluntarily combine in producer co-operatives, that is, collective farms and industrial co-operatives. The means of production that they own are socialised on co-operative lines. Hence there arises co-operative and collective farm property.

Thus the two forms of social property are an objective necessity and reflect the differences in the paths along which the working class and the peasantry move towards socialism and, subsequently, towards communism.

> "Each of the two classes which exist in the U.S.S.R. is building socialism, and enters into the system of socialist economy. But while they form part of the one general system of socialist economy, the working class is linked by its labour with State socialist property (the property of the whole people), while the collective farm peasantry is linked with co-operative and collective farm property belonging to the individual collective farms and collective co-operative unions. These links with different forms of socialist property are what determine, in the first place, the differences in the

position of these classes. They also determine certain differences in their future path of development.

Common to their development is the fact that both these classes are developing towards communism." (V. Molotov, *The Constitution of Socialism*. Articles and Speeches, 1937, Russian edition, p. 267.)

State property in the U.S.S.R. consists of the land, mineral wealth, waters, forests, mills, factories, pits, mines, rail, water and air transport, banks, communications, large agricultural enterprises organised by the State (State farms, machine and tractor stations, etc.), trade and purchasing enterprises belonging to the State, and also municipal enterprises and the main house property in towns and industrial centres.

The territory of the Soviet Union occupies one-sixth of the world's surface—8·7 million square miles. More than one-quarter of this territory—over 1,490 million acres—is *agricultural land*; the area covered by *forests* is 1,740 million acres.

The U.S.S.R. is the richest country in the world in its deposits of *useful minerals*. The socialist economic system has brought to life the wealth which remained untouched in Tsarist Russia. The U.S.S.R. holds first place in the world in its deposits of iron ore, oil, potassium salts, apatites, peat and a number of other important mineral deposits, and second place in coal deposits.

Two hundred thousand enterprises in *State industry*, the entire *railway* network, *water transport* installations and State enterprises in agriculture are national property. So are over 5,000 *State farms*, about 9,000 *machine and tractor stations* and thousands of subsidiary agricultural undertakings; likewise many thousands of *State trading enterprises*. Numerous *scientific and cultural institutions* also belong to the State.

Thanks to the labour of the Soviet people, the State socialist property brought into being as a result of the nationalisation of the factories, mills, transport, etc., has multiplied on a huge scale during the years of socialist construction. Thus the basic productive stocks of industry had increased 24-fold by 1954, compared with 1913.

State socialist property differs fundamentally from State capitalist property. When one enterprise or another, or even a whole branch of the economy, becomes the property of the bourgeois State, its social nature is unaltered. The modern bourgeois State represents the interests of monopoly capital and is an instrument of coercion in its hands, with which it protects the oppression of the working majority by the propertied

minority. Accordingly, State capitalist enterprises, too, are based on the exploitation of the working people and stand opposed to the people, as an alien and oppressive force.

In socialist society power is in the hands of the working people, headed by the working class. They own the means of production. The labour-power used in socialist enterprises is not a commodity, since the working people who own the means of production, cannot sell their labour-power to themselves. Accordingly, every possibility of the exploitation of man by man is ruled out in socialist enterprises.

State property is the predominant form of property in socialist society, accounting for about 91 per cent of the total productive stocks of the U.S.S.R. Thus the bulk of the wealth of the Soviet Union and the most important sources of improvement in the living standards and cultural level of the working people, are the property of the whole people.

Co-operative and collective farm property in the U.S.S.R., consists of socially-owned enterprises in the collective farms and co-operative organisations, their livestock and implements, their output and also their socially-owned buildings. The land which is cultivated by the collective farms and other co-operative enterprises is the property of the whole people. The finest modern techniques which are concentrated in the machine and tractor stations, and are used for all the main works in the collective farms, are also the property of the whole people.

Co-operative and collective farm property consists, first and foremost, of the 89,000 *collective farms*: the collective farm buildings, hundreds of thousands of cattle-breeding sections, socialised draught cattle, agricultural implements, a large network of collective farm cultural and living amenities (clubs, reading-rooms, crêches, rural laboratories, etc.). In the course of socialist construction, socially-owned collective farm property has been enormously multiplied. Between 1940 and 1954 the indivisible funds of the collective farms increased 2·8-fold.

Co-operative industrial production in socialist society, takes the form of *industrial artels*. Industrial co-operation is mainly called upon to develop the production of mass consumer goods, using for this purpose local raw material resources first and foremost. The means of production used by industrial co-operatives, and their output, are the property of the industrial artel. Industrial co-operatives of all types in the U.S.S.R. numbered at the end of 1954 more than 14,000 artels engaging in industrial production.

The co-operative form of enterprise in trade consists of *consumer*

societies which mainly cover the rural population. The property of the 23,000 consumer co-operative societies include an extensive network of shops, stores and warehouses.

The all-round strengthening and development of State co-operative and collective farm property is a most important prerequisite for the further growth of the entire national economy and the gradual transition of Soviet society from socialism to communism.

State, co-operative and collective farm forms of property, like State enterprises and collective farms themselves are of a *kindred* social nature. *Common* to State enterprises and collective farms is the fact that both: (1) are based on socialist, socialised means of production and collective labour, (2) rule out the possibility of the exploitation of man by man, (3) conduct their economy in a planned way, for the satisfaction of the growing needs of the working people, (4) follow the socialist principle of distribution according to work.

At the same time there are certain *differences* between State and co-operative or collective farm property, just as there are between State and co-operative (collective) enterprises.

First, in State enterprises socialist relations of production predominate in their most mature and consistent form. State property is the *property of the whole people*; in State enterprises all the means of production without exception are socialised. Co-operative and collective farm property is *group property*, the property of separate collectives or unions of working people (the agricultural artel, consumer society, or industrial artel); in the collective farms (in their artel form) the *main* means of production of the co-operating peasants have been voluntarily socialised; a certain part of the means of production, in accordance with the Statute of the agricultural artel, is not socialised but remains the personal property of the collective farm household (the personal subsidiary economy of the collective farmer.)

Secondly, the output of State enterprises is the property of the Socialist State,and is sold as laid down by, and at prices fixed by, State bodies. Collective farm produce is the property of each collective farm. One part goes to meet the farm's obligations to the State, in the form of produce sold at fixed State prices and of payments in kind for the work carried out on the collective farm by the machine and tractor station. All

remaining produce remains at the disposal of the collective farm, and is used to build up the prescribed, socially-owned collective farm funds, and for distribution among the members according to labour-days earned. The collective farms sell a part of their produce at purchase prices which exceed the State fixed prices, or at market prices in collective farm trade.[1]

Thirdly, in the State enterprises, which are the property of the whole people, the share of the social product going to the worker for his personal consumption is paid out in the form of *wages*. The State lays down in advance fixed wage-scales for a unit of product or of working time. Since the collective farmer is a member of an artel, which is group property, he receives the share of the income due to him in the form of payment for *labour-days*, out of the funds of his collective farm. The size of this income depends on both the degree of participation of the collective farmer in social labour, which is expressed in the number of labour-days which he has worked, and also on the level of labour productivity and degree of development of the socially-owned economy of the collective farm, which is expressed in the size of payment for each labour-day. The better the collective farm works as a whole, the higher the harvest yield and the productivity of the livestock, the higher is the income of each collective farmer. Wages are paid to the workman in a money form. The incomes of the artel are distributed among the collective farmers both in money and in kind (produce). While the workman's sole source of income is his labour in a socialist enterprise, the main source of income of the collective farmer is his labour in the socially-owned economy of the collective farm, and a supplementary source is his labour in the personal subsidiary plot of his household. The collective farmer sells on the market a part of the produce which he has received for his labour-days, and from his personal subsidiary plot.

Fourthly, the Socialist State directly guides the enterprises belonging to it, administering them through its representatives —the directors of enterprises, who are appointed and removed by the appropriate State institutions. The State institutions,

[1] That is, the collective farms can dispose of their surplus produce, after they have sold what is due to the State at "fixed prices", paid the M.T.S. in kind for their work, and allocated the balance either to the common funds or for distribution among the members, in different ways: (i) further *voluntary* sales to the State, but at much higher prices than those paid for the "fixed" deliveries, (ii) at "collective farm markets" in the towns, where they themselves fix the price at "what the market will stand".—*Editor, English edition.*

relying on the creative initiative of the workers engaged in production, plan directly the entire productive activity of these enterprises, and regulate the main aspects of socialist organisation of labour in them. In the collective farms, in accordance with their co-operative nature, their entire business is administered by the highest body of the agricultural artel—the general meeting of the collective farmers, and the management and collective farm chairman elected by them. The production and financial plans of the artel, its rules, standards of output and rates of reward, and the distribution of revenues are laid down by the collective farmers themselves, on the basis of the Statute of the agricultural artel and guided by the existing laws, planning targets and directives of the Socialist State.

The differences between State enterprises and co-operative (collective) enterprises are not differences of a fundamental kind. They are differences of two forms of economy within the framework of *socialist* relations of production. State property is the highest form of socialist property, and the State form of production is the highest form of socialist production.

Enterprises based wholly on State property are of a consistently socialist type. Lenin defined them as enterprises in which "the means of production, the land on which the enterprises are situated, and the enterprises as a whole, belong to the State". (Lenin, "On Co-operation", *Selected Works*, English edition, 1950, vol. II, Part 2, p. 720.) In State enterprises the means of production, the labour of the manual and clerical workers and the output they produce are all socialised on a nation-wide scale. The State form of production embraces the leading branch of the national economy—socialist industry. The large "factories" producing agricultural products—the State farms—are national property. The land and its main instruments of production—the tractors, combines and other agricultural machinery in the machine and tractor stations and State farms—are the property of the State. The leading and determining role in the entire national economy belongs to State property, as the highest form of socialist property.

Personal Property under Socialism

Social ownership under socialism extends to the means of production and the finished products. A part of these products

subsequently becomes means of production and remains social property. Another part, consisting of objects of consumption, is distributed among the workers in accordance with the quantity and quality of the labour of each, and becomes the *personal property* of the working people.

In *The Communist Manifesto* Marx and Engels pointed out that communism deprives nobody of the opportunity of personally acquiring a definite share of the product of social labour. Communism only abolishes the despicable character of acquisition characteristic of capitalism, whereby the worker only exists for the purpose of increasing capital.

Outlining the foundations of the future socialist society, Engels wrote in *Anti-Dühring* that

> "social ownership extends to the land and the other means of production, and private ownership to the products, that is, the articles of consumption." (Engels, *Anti-Dühring*, English edition, 1954, p. 181.)

With the abolition of the capitalist mode of production, those economic laws of capitalism also lose their validity which limit the personal property and personal consumption of the masses of the people to the minimum of essential products required for the maintenance and reproduction of labour-power. Far from abolishing personal ownership of objects of consumption, socialism provides the only real safeguard for the ever fuller satisfaction of the personal needs of all members of society.

The right of the working people in socialist society to personal property extends to their incomes from work and their savings, their houses and domestic plots, domestic and household goods, and objects of personal use and comfort.

The *property of the collective farm household* is a special form of personal property in conditions of socialism. In accordance with the Statute of the agricultural artel, each collective farm household has as its personal property its subsidiary economy, its household allotment, its house, cattle, poultry and small agricultural equipment.

Labour alone is the source of personal property in the socialist epoch. With the complete predominance of socialist relations of production, personal property cannot be converted

into capital, that is, used as a means of exploitation. The right to personal property, as also the right to inherit personal property, is safeguarded by the Constitution of the U.S.S.R.

In socialist society personal property is indissolubly linked with its basis, social property. With increasing social property and national wealth, ever larger quantities of products are available for the satisfaction of the personal needs of the working people of socialist society. Socialism ensures the harmonious combination of the personal interests of individual members with the interests of society as a whole.

The Character of Socialist Relations of Production

By their very nature, socialist relations of production differ fundamentally from the production relations of capitalism and of other social systems based on private ownership of the means of production.

Socialist relations of production are characterised by: (1) complete predominance of social ownership of the means of production, existing in two forms—State ownership and co-operative collective farm ownership; (2) emancipation of the working people from exploitation and the establishment of comradely co-operation and socialist mutual aid: (3) distribution of the products of labour in the interests of the working people according to the principle: to each according to his labour.

Socialist ownership of the means of production gives rise to mutual relations between people engaged in the production process which are quite different from those obtaining under capitalism. Private property in the means of production inevitably *divides* people, gives rise to relations of domination and subordination and to the exploitation of some people by others, evokes antagonism of interests, class struggle and competition. On the other hand, social ownership of the means of production *unites* people, ensures a genuine community of interests and comradely co-operation.

The predominance of social ownership of the means of production gives rise also to a quite different kind of distribution in a socialist society from that existing under capitalism.

Because exploiting classes and the exploitation of man by

man do not exist in socialist society, there is no division of labour into necessary and surplus labour, and equally no division of the product into necessary and surplus product. Socialist relations of production give rise to an objective necessity for a quite different division of labour and its product from that obtaining under capitalism. Under socialism the means of production are socially-owned, and production itself is for the satisfaction of the needs of society as a whole and of each of its members. Consequently the labour of the producers is divided into the following two parts: *work for oneself* and *work for society*. Accordingly, the product of labour also (excluding the part used to replace expended means of production), is divided into two parts: *the product for oneself* and *the product for society*. Work for oneself provides the product which is distributed between the producers in accordance with the quantity and quality of their work, and covers the personal needs of the worker and his family. Work for society provides the product which is used for social needs: expansion of production, development of education, health services, provision for defence, etc. In socialist society, where the working people are themselves in power, work for society is as necessary to them as is work for oneself. The product for society, which is used to expand socialist production, augments the material prerequisites of a further improvement in the welfare of the working people. The product for society which is expended on education, health services, social welfare and other material requirements of the whole people, also serves to satisfy the needs of the working people, in the same way as the product for oneself.

Social ownership of the means of production and of the products of labour, together with the distribution of products in the interests of the working people, account for the decisive superiority of the socialist over the capitalist economic system. All the advantages of large-scale social production, which ensures an enormous growth in the productive capacity of labour, accrue to society as a whole and to the working masses, and not, as under capitalism, to the exploiters.

The predominance of social ownership of the means of production means that socialist production is freed from the contradiction, inherent in capitalism, between the social character of production and the private capitalist form of appropriating its fruits. In socialist society, social, socialist

property in the means of production is in conformity with the social character of production. Accordingly, the relations of production in socialist society *fully correspond* to the productive forces.

In characterising the socialist system, J. V. Stalin writes:

> "Here the relations of production fully correspond to the state of productive forces, for the social character of the process of production is reinforced by the social ownership of the means of production.
>
> "For this reason socialist production in the U.S.S.R. knows no periodical crises of overproduction and their accompanying absurdities.
>
> "For this reason, the productive forces here develop at an accelerated pace, for the relations of production that correspond to them offer full scope for such development." (Stalin, "Dialectical and Historical Materialism", *Problems of Leninism*, 1953, English edition, pp. 739–40.)

In contrast to the production relations of modern capitalism, all of which to an increasing extent hinder the development of the productive forces, socialist relations of production ensure their uninterrupted growth. Having arisen and developed on the basis of the existing productive forces, socialist relations of production are in turn a powerful motive force of their further accelerated development.

The full conformity of socialist relations of production to the character of the productive forces of society does not mean, however, that there cannot be any contradictions between them. Contradictions between the productive forces and the relations of production inevitably arise, since the productive forces, being the most mobile and revolutionary element in production, outstrip the relations of production under socialism as well. However, in contrast to social systems founded on exploitation, these contradictions are not antagonistic and irreconcilable. Hence the position does not normally, in socialist society, lead to a conflict between the relations of production and the productive forces. Socialist society is able, in good time, to bring relations of production into conformity with the level of the productive forces, since it does not contain any classes interested in retaining out-dated forms of economy.

BRIEF CONCLUSIONS

(1) Socialism has two forms of social property: State property and co-operative collective farm property. There are correspondingly two kinds of socialist economy: State enterprises and co-operative (collective) enterprises.

(2) In socialist society, State property is the property of the whole people. State property is the highest and most developed form of socialist property. The leading and determining role in the entire national economy belongs to it. In the U.S.S.R. it includes the overwhelming bulk of the nation's wealth. Co-operative collective farm property is the group property of individual collective farms, industrial co-operative artels and consumer societies.

(3) In socialist society personal property extends to the objects of consumption. A special form of personal property is the personal property of the collective farm household. The personal property of the working people grows with the increase of socially-owned socialist property.

(4) The production relations of socialism are characterised by: (1) complete predominance of social property in the means of production, existing in two forms—State property and co-operative collective farm property; (2) emancipation of the working people from exploitation, comradely co-operation and socialist mutual aid between people in the process of producing material wealth; (3) distribution of the product in the interests of the working people, according to the principle: to each according to his labour.

Under socialism the division of labour into necessary and surplus labour, and also the division of the product into necessary and surplus product, disappear.

The labour of workers engaged in socialist production is divided into two parts: work for oneself and work for society. In work for oneself, the workers make the product which is distributed among them according to the quantity and quality of their labour. In work for society, they make the product which is used for social requirements.

(5) In socialist society the relations of production fully conform to the character of the productive forces, and are the major and decisive force which determines the uninterrupted growth at a rapid pace of the productive forces of socialist

society. The contradictions which arise in the course of socialist construction between the productive forces and the relations of production are not of an antagonistic character and do not develop into conflicts, since socialist society is able in good time to bring the relations of production into accord with the level of the productive forces.

CHAPTER XXIX

THE BASIC ECONOMIC LAW OF SOCIALISM

The Nature of Economic Laws under Socialism

As a result of the replacement of the old bourgeois production-relations by socialist production-relations, the economic laws of capitalism, expressing relations based on the exploitation of man by man, cease to operate. The law of surplus-value, the basic economic law of modern capitalism, disappears from the scene. The general law of capitalist accumulation, the law of competition and anarchy of production, together with other laws, also disappear. The categories which express capitalist relations cease to exist: capital, surplus-value, capitalist profit, price of production, wage-labour, the value of labour-power, etc.

With the birth and development of socialist relations of production, new economic laws make their appearance and begin to operate: the basic economic law of socialism, the law of planned (proportional) development of the national economy, the law of steady increase in the productivity of labour, the law of distribution according to work, the law of socialist accumulation, etc.

Since commodity production continues to exist under socialism, the law of value and the categories associated with it operate in socialist economy. The new economic conditions created by the victory of socialism alter the character of commodity production and commodity circulation, restricting their sphere of operation. In socialist economy, commodity production and commodity circulation exist without capitalists and serve the socialist economy. The sphere of operation of the law of value is strictly limited.

Behind the outward form of the old categories of value lies concealed a social content that is different in principle; the nature of these categories is radically altered: money, trade and credit are used as instruments of socialist construction. The economic system of socialism gives birth to new economic categories, linked with the laws inherent in it; basic and

circulating funds, economic accounting, production costs, product for society, labour-day, etc.

The development of the socialist mode of production is also ruled by economic laws which are common to all social formations, as for example the law of the necessary conformity of the relations of production to the character of the productive forces.

The economic laws of socialism express the essence of socialist relations of production. In contrast to the economic laws of capitalism, which reflect the growing exploitation of labour by capital, the economic laws of socialism reflect the relations of comradely co-operation and mutual aid existing between workers who are free from exploitation.

As with the economic laws of any other mode of production, the economic laws of socialism arise and operate independently of the will of man: that is, they have an *objective* character. They cannot be created, formed, transformed or abolished by the will of man. Only on the basis of these laws can the development of socialist society be accomplished. Violation of the requirements of these economic laws causes a number of difficulties and contradictions and can lead to the dislocation of the country's economic life.

Denial of the objective character of the economic laws of socialism would mean the destruction of the political economy of socialism as a science, thereby depriving socialist society of the ability to anticipate the course of events in the economic life of the country and to guide the national economy. Such a denial is a departure from Marxism to the standpoint of subjective idealism. It inevitably leads to political adventurism and to arbitrariness in the practice of economic management.

But the objective character of the economic laws of socialism does not in any way mean that they operate as an elemental force which dominates man; or that man is powerless in the face of economic laws. Such a fetishistic approach to economic laws inevitably leads to the theory of *laissez-faire* and spontaneity in socialist construction. It is profoundly inimical to Marxism-Leninism. In the conditions of socialism, because of the replacement of private ownership of the means of production by social ownership, wide possibilities are offered for becoming cognisant and making use of the laws of economic development.

The economic laws of capitalism force their way forward as a blind and destructive force, which operates behind the backs

of private commodity producers. But with the transition to socialism, anarchy of production disappears and the economic development of society takes on a planned character. With the elimination of capitalism and the socialisation of the means of production, man becomes master of his social and economic relations. Having become cognisant of objective laws, he can master and apply them with full consciousness in the interests of society as a whole.

With the transition to socialism, Engels pointed out,

> "the laws of his own social action, hitherto standing face to face with man as laws of nature, foreign to and dominating him, will then be used with full understanding, and so mastered by him. Man's own social organisation, hitherto confronting him as a necessity imposed by nature and history, now becomes the result of his own free action. The extraneous objective forces that have hitherto governed history pass under the control of man himself. Only from that time will man himself, with full consciousness, make his own history—only from that time will the social causes set in motion by him have, in the main and in constantly growing measure, the results intended by him. It is the ascent of man from the kingdom of necessity to the kingdom of freedom." (Engels, *Anti-Dühring*, 1954, English edition, pp. 392–3.)

This refers to freedom as conceived by Marxism, that is to say freedom in the sense of the recognition of necessity as the basis of the conscious activity of people.

In capitalist society the spontaneous nature of the development of economy and the class limitations of the bourgeoisie put narrow limits to becoming cognisant of the economic laws of capitalism, which lead in the end to the destruction of the capitalist system, to the victory of socialism. As far as the bourgeoisie is capable of becoming cognisant of objective, economic laws, it makes use of them for narrow, class interests, which contradict the interests of the working masses. The class interests of the proletariat fully correspond to the objective course of the progressive development of society, which leads to the victory of communism, and coincide with the interests of the overwhelming majority of society. Under socialism there are no conditions of a social and class nature that prevent people from fully cognising the laws of economic development

and using them to serve society. The working class and all working people are vitally interested in cognising and using the laws of economic development. The predominance of social ownership of the means of production and the planned nature of the development of socialist economy make the cognisance and utilisation of economic laws objectively essential, since otherwise planned leadership of communist construction would not be possible.

The economic laws of socialism make *possible* the development and progress of the socialist economy along the path to communism. In order, however to make this possibility a *reality* it is necessary to apply these objective economic laws with expert knowledge. Scientific cognition and correct application of objective economic laws is the foundation of the economic policy of the Communist Party and the Socialist State. The more fully socialist society masters economic laws, the more accurately it reflects their requirements in its practical activity, the more successfully will it achieve its purpose.

To apply economic laws with full knowledge it is essential to learn to take into account the concrete economic and political conditions in which these laws operate in each given period.

Essential Features of the Basic Economic Law of Socialism

Marx and Engels foresaw that in socialist society the purpose of planned organisation of production would be the satisfaction of the needs both of society as a whole and of its individual members. In developing this Marxist thesis, Lenin wrote in the draft programme of the Russian Social-Democratic Labour Party in 1902 that the substitution of socialist society for capitalist society would be achieved "to ensure the fullest well-being and free, all-round development of all its members." (Lenin, "Draft Programme of the Russian Social-Democratic Labour Party", *Collected Works*, Russian edition, vol. VI, p. 12.)

The objective necessity and possibility of a systematic and rapid growth of socialist industry, the electrification of the country, the development of heavy industry, as the material basis for socialism, and of achieving a productivity of social labour higher than that of capitalism and of raising the welfare and cultural level of the working masses were placed by Lenin on a scientific footing. In this way Lenin revealed the main

principles of the basic economic law of socialism, which have served to guide the policy of the Communist Party and the Soviet Government.

Basing himself on these principles, Stalin set forth a developed formulation of the basic economic law of socialism.

The essential features and requirements of the *basic economic law of socialism* are

> "the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society, through the continuous expansion and perfection of socialist production on the basis of the highest techniques." (Stalin, *Economic Problems of Socialism in the U.S.S.R.*, 1952, English edition, p. 45.)

The basic economic law of socialism expresses the *purpose* of socialist production and the means of achieving it.

The purpose of production is determined by relations of ownership of the means of production. When the means of production belong to the bourgeoisie, production is inevitably carried on for the enrichment of the owners of capital, while the working people, that is, the overwhelming majority of society, are merely an object for exploitation. Consumption by the working people is necessary to capitalism only to the extent that it is essential for the extraction of profits. Under these conditions, man and his needs cannot be the purpose of production. When the means of production belong to the working people, and the exploiting classes have been eliminated, production is carried on in the interests of the working people, that is, the whole of socialist society. Accordingly the fullest satisfaction of man's growing material and cultural requirements becomes the direct purpose of production.

The purpose to which production is subordinated is inseparable from the means of its achievement.

The degree of satisfaction of the needs of the people depends on the level of development of production reached in the given period and on the resources at the disposal of socialist society. A steady rise in consumption by the people cannot be secured without a continuous growth of production. Uninterrupted growth of production not only ensures the creation of the output necessary to satisfy the growing requirements of society, but also stimulates the emergence of new requirements. In turn,

the steady growth of the material and cultural needs of the working people and of their purchasing power is a necessary condition without which production cannot continuously advance. Thanks to the systematic increase in the purchasing power of the population, a steadily expanding effective demand arises for the output from socialist industry and agriculture.

In socialist economy, the basic contradiction of capitalism—between the social character of production and the private capitalist method of appropriation—has been abolished. Consequently the inherent contradiction of capitalism between production and consumption, which reflects the fundamental contradiction of the bourgeois system, is unknown to socialism. The basic economic law of socialism provides the opportunity for harmonious co-ordination of the growing purchasing power of the population with the simultaneous growth of production. Under capitalism the low level of consumption, and of the purchasing power of the masses of the people, inevitably hinders the growth of production and lags behind it. Consequently economic development takes place with interruptions—moving from boom to crisis and from crisis to boom. Thanks to the systematic increase in consumption by the people, socialist society is insured against crises of overproduction and consequently is able to expand production continuously.

The non-antagonistic contradiction arising in the course of development of socialist society between the level of socialist production achieved at any particular time and the rapidly growing needs of the masses is solved in a planned way by increased production, which leads to a rise in consumption by the working people and a fresh increase in requirements, calling for a further expansion of production.

The development of socialist production does not consist merely in quantitative expansion. The continuous growth of socialist production requires constant perfecting of production methods and a steady increase in the productivity of social labour, enabling prices to be systematically lowered and the quality of output improved, which is of great importance in satisfying the requirements of the working people. All this is impossible without constantly raising the technical level of production. Therefore the development of the highest techniques is the necessary condition for the continuous growth and perfecting of socialist production.

The basic economic law expresses the essence of socialist relations of production and determines the chief processes of the development of the socialist method of production. Other economic laws reflect particular essential aspects of the socialist relations of production and determine particular processes of the development of the socialist method of production. The basic economic law plays the leading role in the system of economic laws operating in socialist society. Thus, the requirements of the basic economic law determine the character of the national-economic proportions which are established on the basis of the law of planned, proportional development of the national economy; the steady rise in the productivity of labour serves as the chief means of ensuring an uninterrupted growth of socialist industry; the satisfaction of the growing material and cultural requirements of the working people is brought about by means of the law of distribution according to work, etc.

Each law is not only in a state of definite interaction with the basic economic law, but also with other laws of socialist economy. Thus, for example, the proportion among the different branches of industry established on the basis of the law of planned, proportional development of the national economy depends on the level of productivity of labour in these branches. In its turn, one of the extremely important conditions of the rise in productivity of labour is the fulfilment of the requirements of the law of distribution according to work.

The Basic Economic Law of Socialism and the Development of Socialist Production

The operation of the basic economic law of socialism creates an opportunity for a continuous growth of production, immeasurably more rapid than under capitalism. Soviet society, relying on the basic economic law of socialism and making skilful use of it, increases year by year the mass of material goods produced in the entire national economy. Socialist industry steadily follows a rising curve, without any falls or industrial crises.

In 1939 the output of large-scale industry in the U.S.S.R. was 552 per cent of the 1929 level, while in the United States the level of industrial output compared with 1929 was only 99 per cent, in

Britain 123 per cent, and in France 80 per cent. The rise of industry in the U.S.S.R. was temporarily interrupted owing to the 1941–5 war; after the war the rise was resumed. In spite of the colossal destruction suffered by Soviet national economy in the war years, the pre-war level of production in the U.S.S.R. was soon considerably exceeded. As a result of this, the output of large-scale industry in the U.S.S.R. in 1954 was 18 times greater than in 1929. The industrial output of the United States marked time between 1929 and 1939, then it rose because of the increase in war production and the armaments race, and in 1954 it was a little more than twice the 1929 level. Britain's industrial output in 1954 was only 72 per cent greater than in 1929, that of France 14 per cent greater.

The basic economic law of socialism is inseparably linked with the law of the priority development of industries producing means of production, that is to say their relatively more rapid development compared with that of industries producing consumer goods. This economic law of expanded reproduction is of special importance for socialism. Heavy industry with engineering as its core is the chief source of the steady rise of socialist industry as a whole. The priority growth of heavy industry is the essential condition for technical progress throughout the national economy, for raising the technical equipment of social labour and, consequently, for improving production on the basis of the highest techniques. Without the priority development of heavy industry, which supplies all branches of the national economy with equipment, machinery, fuel and energy, it is impossible to expand systematically the industries producing articles of consumption and to ensure satisfaction of the growing requirements of the working people.

The priority growth of the production of means of production is the most important prerequisite for a rise in labour productivity. The chief lever for raising the productivity of labour is the introduction into industry of advanced techniques and ever more perfect instruments of labour produced by heavy industry.

The priority development of the production of means of production, heavy industry, is a vitally important condition for ensuring the economic might and defensive capacity of the country.

Marxist political economy rejects the vulgarised, narrow consumers' approach to the basic economic law of socialism. This anti-Marxist approach finds expression in ignoring the determining role of production in relation to consumption, in denying the necessity for priority growth of the production of

means of production under socialism, and in the assertion that in the conditions prevailing under socialism it is necessary that both departments of social production should develop equally or that industries producing consumer goods should develop even more rapidly than industries producing means of production.

> "In connection with the measures recently taken for increasing the output of consumer goods some comrades are guilty of confusion in the question of the rate of development of heavy and light industry in our country. Relying on incorrect conceptions and a vulgarised interpretation of the basic economic law of socialism, these pseudo-theoreticians try to prove that at some stage of socialist construction the development of heavy industry ceases to be a main task and that light industry can and should precede all other branches of industry. This is a deeply mistaken view, alien to the spirit of Marxism-Leninism." (N. S. Khrushchev, "On increasing the output of livestock products." *Report to the Plenum of the Central Committee of the C.P.S.U.*, January 25, 1955).

A revision of the Marxist-Leninist theses on the priority development of the production of means of production would in fact mean a reduction of heavy industry, which would inevitably lead to weakening all branches of the national economy, lowering the living standards of the working people, and undermining the economic might and defensive capacity of the Soviet Union. The priority development of heavy industry serves as the basis for a sharp rise in agriculture, for a further development of the light and food industries.

The basic economic law of socialism, which expresses the radical advantages of the socialist over the capitalist system, provides objective possibilities for the Soviet Union to overtake and surpass the chief capitalist countries in economic respects, i.e., as regards the extent of output per head of the population. The accomplishment of this task requires expansion of capital construction, continuous improvement of the organisation of industry, rational use of all industrial resources and a systematic rise in the productivity of labour in all sectors of socialist economy.

Socialist relations of production provide wide scope for technical progress and, compared with capitalism, considerably

extend the possibility of applying the most up-to-date techniques in all branches of the national economy. Under socialism, as already stated, new machines are introduced whenever they provide an economy of social labour, lighten labour, make possible the introduction of new forms of production and promote the growth of the welfare of the people.

Disproportions and periodic interruptions in technical development, connected with the cyclic character of the development of industry and the narrow markets, are natural to capitalism. Socialism, on the contrary, is characterised by the continuous perfecting of technique on a scale covering the whole of the national economy.

The higher the level of technique and the organisation of production, the greater are the means at the disposal of socialist society for satisfying the growing needs of the working people. The socialist economic system creates a direct interest of the working people in increasing production and applying the most advanced techniques on an extensive scale. In turn, this interest of the people in developing socialist production is a constant factor in developing the creative initiative of the broad masses, aimed at improving production in every possible way. This is the greatest factor in the continuous growth of the socialist economy.

The Basic Economic Law of Socialism and the Growth of the Welfare of the Working People

The basic economic law of socialism reflects the organic unity of aim of socialist production and the means to achieve this aim, the direct dependence of the increase in national consumption upon the growth of production, upon the productivity of social labour. Only socialism converts social labour into a source of continuous rise in the welfare of the people. In socialist society the priority development of the production of means of production serves as the basis for a rise in national consumption, whereas under capitalism it leads to increased unemployment and the impoverishment of the working people. Socialism has eliminated the narrow limits of consumption by the working masses, which are typical of the bourgeois system and are determined by the drive of the capitalists for the maximum profit.

The continuous growth of socialist production is the secure foundation for the constant rise of the material and cultural level of life of the people. In socialist economy there is an unfailing increase in the mass of products created by work for oneself, and used for the personal consumption of the working people; the mass of products created by work for society, and used to expand production and to satisfy material and cultural requirements of the working people, also increases.

In the U.S.S.R. there is a steady growth of real incomes and a systematic increase of the quantity of consumer goods purchased by the population at falling prices.

The real incomes of the working people in the U.S.S.R. (that is, incomes after taking into account changes in prices) increased per wage-earner, in 1954 compared with 1913, in the following way: workers approximately 6-fold (taking account of the elimination of unemployment), and peasants approximately 6·5-fold.

The volume of output of consumer goods in large-scale industry had increased over 1913, in comparable prices, 7·6-fold by 1940 and 16-fold by 1954.

A constant factor in the growth of real incomes of the working people of the U.S.S.R., is the large-scale free cultural services and amenities provided by the Soviet State. The Soviet Union has a system of social insurance and social welfare inaccessible to capitalism.

Socialism means a continuous improvement in the working and living conditions of the masses of the people. The supply of the everyday needs of life is transformed from a means of enriching the capitalists into the means of raising the standard of living of the people. Socialism provides a steady improvement of housing conditions. In the U.S.S.R., thanks to the public ownership of the main housing property in the towns and to the large-scale State housing schemes, badly constructed houses are being increasingly replaced by new and comfortable homes.

In many bourgeois countries medical assistance, being a private matter, has to be paid for at a high price and is therefore little accessible to the broad masses of the people. In the U.S.S.R. an all-round State health service has been created which provides the population free with all forms of medical assistance.

Socialism gives broad scope for the cultural growth of the working people and for the development of their abilities and talents, of which there is an inexhaustible fount in the people. Under capitalism the working people have access to education only within the narrow limits dictated by the interests of capitalist exploitation. Socialism, on the contrary, provides conditions for an ever fuller satisfaction of the rapidly growing educational, cultural, scientific and artistic requirements of the masses.

> "Formerly," [Lenin said in 1918] "man's entire intellect, all his genius, worked only to give some the entire wealth of technique and culture, and to deprive others of what they needed most—education and development. Now, however, all the marvels of technique, all the achievements of culture, will become the possession of the whole people, and man's intellect and genius will never again be turned into a means of coercion and exploitation." (Lenin, "Concluding Remarks at the Close of the Third All-Russian Congress of Soviets", *Collected Works*, Russian edition, vol. XXVI, p. 436.)

In the U.S.S.R. satisfaction of the growing cultural requirements of the people is secured by extensive measures in the sphere of cultural development: free tuition and improvement of skill, student stipends, systematic extension of the network of schools, cultural and educational institutions, libraries, clubs, increased publication of printed materials, etc.

The number of people participating in all forms of study in the U.S.S.R. increased from 8 million in 1914 to over 50 million in 1954. At the same time, the number of scholars in secondary schools (the 8th to 10th classes) and in institutions for secondary technical education increased from 0·2 million in 1914 to 3·6 million in 1940 and 7·8 million in 1954. The number of students in higher educational institutions increased from 117,000 in 1914 to 812,000 in 1940 and to 1,732,000 in 1954. The number of teachers and tutors in all educational institutions, together with those in children's institutions, amounted to more than 2 million in 1954, nearly ten times as many as in 1914.

Relying on the basic economic law of socialism, the Communist Party and the Soviet State are pursuing a policy which ensures a steady rise in the welfare and cultural level of the masses.

The Economic Role of the Socialist State

The objective economic laws operating in the economy of socialism are recognised and utilised by the Socialist State in the practice of building a communist society. The success of economic policy depends above all on the extent to which it correctly conforms to the requirements of economic laws.

The character of the Socialist State is determined by the economic basis of socialism. The political power of the working people, headed by the working class, corresponds to the socialist economic system and the social ownership of the means of production by the working people. The policy of the modern bourgeois State reflects the interests of the capitalist monopolies, is directed towards increasing their profits and is hostile to the masses of the people. The policy of the Socialist State, on the contrary—the State of workers and peasants—expresses the fundamental, vital interests of the working people and enjoys the unlimited support of the masses of the people.

The new economic role of the Socialist State, unknown in history until this time, is determined by the socialist relations of production. The Soviet State is the owner of no less than nine-tenths of all the means of production in the country. Thanks to the total predominance of social ownership—State ownership and co-operative collective farm ownership—of the means of production, the State has been enabled, on the basis of the economic laws of socialism, which are consciously applied in its activity, to exercise planned guidance of the national economy and to fulfil the function of organiser of that economy. Such a role is beyond the reach of a bourgeois State, because of the private capitalist ownership of the means of production and the spontaneous character of the economic development of capitalist society.

The basic economic law gives rise to the need for the Socialist State to be constantly concerned to satisfy to the full the steadily growing requirements of the people on the basis of rapid development of the productive forces. The activities of the Socialist State are devoted to securing an all-round improvement of the life of the working people.

The Socialist State takes account of the many and varied requirements of society and, in accordance with these growing needs, develops and perfects production, organises the introduction of advanced techniques into all branches of the national

economy, a steady increase in the productivity of social labour, carries out capital construction and the location of industry, and ensures the increase of socialist accumulation. The Soviet State carries out a system of measures to produce an abundance of industrial and food commodities in the country. For these purposes it develops heavy industry to the fullest extent and on this basis ensures a powerful rise of agriculture and of the production of goods for mass consumption.

In conformity with the real conditions, both internal and international, the State lays down at each stage the concrete tasks of economic construction, establishes the direction and rate of development of the national economy and improves the method of conducting it. It takes into account not only the past results but also the anticipated tendencies of future development, and exercises its functions as economic organiser on the basis of scientific foresight. Advanced social science—Marxism-Leninism—is the theoretical foundation of the many-sided activity of the Socialist State.

The economic, organising, cultural and educational work of the Soviet State covers all aspects of the life of socialist society. The Soviet State exercises planned guidance and management of State enterprises in every branch of the economy. The State and its organs appoint the heads of State enterprises, groups of such enterprises and entire branches of the economy, and supervise their work. The State plans the national economy of the country: it determines in a planned way the volume, structure and rate of growth of industry, and of home and foreign trade; it fixes the prices of commodities and the planned costs of production, the level of wages of workers and other employees and distributes materials, labour and financial resources, etc. The Soviet State directs the economic life of the collective farms and guides them through the medium of the local Soviets, M.T.S., and the elected bodies in the agricultural artel; in doing so it takes account of the special features of the collective farms as co-operative undertakings. It helps in every way to strengthen the alliance of the working class and the peasantry, and extend the economic links between town and country.

The Soviet State guarantees to citizens the real exercise of such important rights as the right to work and leisure, to education, and to material security during loss of earning capacity and in old age.

The Soviet State guides education and the training of qualified personnel, promotes the development of advanced science and art and the practical application of scientific and technical achievements.

The strength of the Soviet machinery of State lies in its ties with the mass of the people. It follows from the nature of the socialist system that centralised State guidance must be combined with local initiative and with practical allowance for local peculiarities.

The most important principle in guidance of the economy by the State is the unity of economic and political work.

> "In practice, politics and economics are indivisible. They exist together and act together. And he who thinks that in our practical work he can separate economics from politics, and intensify economic work at the price of belittling political work or, on the contrary, intensify political work at the price of belittling economic work, is bound to find himself in a blind alley." Stalin, *Shortcomings in Party Work and Measures for Eliminating the Trotskyists and other Double-Dealers*, Russian edition, 1938, p. 26.

The Communist Party is the leading and organising force of the Socialist State, giving direction to the activity of all State bodies and to voluntary organisations of the working people. The Party lays down directives for compiling national economic plans, and the most important national economic measures which are of vital significance for the country as a whole. The Party, being closely linked with the working masses, rallies the workers, collective farmers, and intelligentsia for the fulfilment of economic and political tasks, educates the masses and raises their Communist consciousness. The policy of the Communist Party and the Soviet State, aimed at satisfying new and timely requirements in the economic development of society, plays an enormously progressive role.

The development of the socialist mode of production takes place in the course of a struggle of the new against the old, of that which is growing against that which is dying, of the progressive against the backward, by surmounting contradictions and difficulties. Lenin pointed out that under communism antagonisms disappear but contradictions remain. In socialist society these contradictions are non-antagonistic, since they are

not connected with opposed class interests, and are overcome in the course of communist construction.

There are no exploiting classes in socialist society, but there are backward elements, imbued with tendencies and habits from the age of private property, opposed to the development of the new progressive tendencies in the socialist economy. There are still embezzlers of public property and bureaucratic elements who ignore the needs of the people. The survivals of capitalism in the consciousness of man have not yet been fully overcome. The Soviet State, guided by the Communist Party, encourages the initiative of the working people and lends support to progressive tendencies in all spheres of social life. The Soviet State assiduously supports the young shoots of what is new, strengthens them, and facilitates the diffusion of advanced production methods; it wages a persistent struggle against all forces of inertia, and all manifestations of backwardness, stagnation or routinism, which hinder the rapid development of socialist production.

One of the main forms of struggle of the new against the old in socialist society is criticism and self-criticism, which constitute a powerful motive force in the development of socialist society. Criticism and self-criticism make it possible to uncover and eliminate shortcomings and difficulties in work, and to eradicate all signs of bureaucracy, by enlisting the participation of the masses of the people. They enable new means of accelerating the rates of economic development to be discovered, and in this way help to overcome the contradictions of socialist society.

Besides the internal non-antagonistic contradictions of socialist society, there exists the external antagonistic contradiction between the countries of the socialist camp and the forces of imperialism. This is expressed in the fact that imperialist, aggressive circles endeavour to unleash war against the U.S.S.R. and the People's Democracies and carry on undermining work in those countries. From this there arises the necessity to strengthen to the utmost the economic might and defence capacity of the U.S.S.R. and the People's Democracies.

Arising from the Leninist thesis of the possibility of peaceful co-existence between the socialist and capitalist systems, the Soviet State consistently pursues a policy of peace, and expands peaceful construction and foreign trade relations with all

countries. It strengthens economic co-operation with the countries of the camp of democracy and socialism, which represents the new, socialist type of relations between nations.

The Soviet State of workers and peasants, utilising the advantages of the socialist economic system and relying on economic laws, is directing the development of the U.S.S.R. along the road to communism.

BRIEF CONCLUSIONS

(1) The economic laws of socialism are objective laws, independent of the will and consciousness of man. They express the relations of fraternal co-operation and socialist mutual aid of workers freed from exploitation. The economic laws of socialism do not operate as a blind and destructive force: they are recognised and utilised by socialist society. The Communist Party and the Socialist State base their economic policy on the economic laws of socialism.

(2) The basic economic law of socialism determines all the main aspects and main processes of development of the socialist mode of production, the purpose of socialist production and the means to achieve this purpose. The essential features and requirements of the basic economic law of socialism are the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society, through the continuous expansion and perfecting of production on the basis of higher techniques.

(3) In socialist economy the growth of requirements (the purchasing power) of the masses is the motive force of socialist production and drives it forward. The continuous growth of socialist production is the material foundation for the steady growth of consumption by the people and the growth of new requirements. The priority development of the production of means of production is the essential condition for the continuous growth of socialist production. Socialism ensures the steady development of advanced techniques, essential to the continuous growth of perfecting the socialist production and the ever fuller satisfaction of the growing needs of the working people.

(4) Corresponding to the constantly increasing mass of products for oneself and products for society, the real incomes of the working people are constantly raised. Socialism means a

constant improvement in the working and living conditions of the people. It opens up the fullest opportunities for cultural development and makes the entire wealth of technique, science and culture the possession of the whole people.

(5) Expressing the vital interests of the people, the Socialist State guided by the Communist Party develops on an ever-increasing scale its economic, organising, cultural and educational activity, directed towards securing a continuous growth of production and a steady rise in the level of welfare and culture of the people. The development of the socialist mode of production proceeds through the surmounting of contradictions and difficulties. Relying on scientific knowledge of objective economic laws and making use of them, the Socialist State assures the victory of the new and progressive over the old in all spheres of the economy, and directs the development of society along the road to communism.

CHAPTER XXX

THE LAW OF PLANNED PROPORTIONAL DEVELOPMENT OF THE NATIONAL ECONOMY

The Necessity for Planned Development of the Economy in a Socialist System

As is known, every social formation requires for its existence and development definite proportions in the distribution of labour and means of production among the different branches of the national economy. Under capitalism the essential proportions in the development of production are arrived at spontaneously, through constant fluctuations, disproportions and periodic crises. In directing their capital into one or other branch of production, capitalists are guided by such spontaneous barometers of economic life as the fluctuations of market prices, rates of profits, rates of interest, quotations of shares, etc.

In socialist economy, as a result of the socialisation of the means of production, the spontaneous barometers of economic life are abolished. Socialist society cannot develop blindly and by drifting along of its own accord. In socialist conditions the necessary proportions in the distribution of means of production and labour-power between branches of the economy can only be achieved in a planned way. Planned development of socialist economy is made necessary and possible by social ownership of the means of production. Engels stated that the passing of the means of production into social ownership makes possible "socialised production upon a predetermined plan". (*Anti-Dühring*, English edition, 1954, p. 395.) In contradistinction to private ownership of the means of production, which *disunites* the commodity producers and gives rise to competition and anarchy in production, social ownership *unites* a multitude of enterprises into a single national economic whole, subordinated to a single aim arising from the requirements of the basic economic law of socialism. Large-scale socialised production in a socialist society can develop only through a general plan, which provides unity of action for the whole of

society and ensures the necessary proportions in the development of individual industries and enterprises and of the national economy as a whole.

Demonstrating the need for the planned development of socialist economy, Lenin pointed out that the economy cannot be run without a long-term plan, and that one of the gigantic tasks of the socialist revolution was

> "the transformation of the whole of the State economic mechanism into a single, huge machine, into an economic organism that will work in such a way as to enable hundreds of millions of people to be guided by a single plan". (Lenin, *Selected Works*, 12-vol. edition, vol. VII, p. 287.)

Capitalism is inconceivable without competition and anarchy in production, and the consequent waste of social labour; and in the same way socialism is inconceivable without planned development of the national economy, which enables social labour and its products to be utilised rationally and economically.

Thus social, socialist ownership of the means of production, and large-scale socialist production both in industry and in agriculture, make the planned, proportional development of the whole economy objectively possible and necessary.

The planned, proportional development of the national economy is an economic law of socialism.

The Basic Features and Requirements of the Law of Planned Development of the National Economy

The law of planned, proportional development of the national economy is the *regulator* of socialist industry; distribution of means of production and labour-power among the various branches of socialist economy is effected on the basis of this law. This law requires: planned conduct of the national economy, proportional development of all branches of socialist economy, the fullest and most effective use of the country's material, labour and financial resources.

The law of planned development of the national economy signifies, above all, the need for due proportion between the parts and elements of the national economy. V. I. Lenin

pointed out that planning means constant, deliberately supported proportionality.

But the tasks on which the proportions planned for the national economy must be dependent are not included in the law of planned development. The nature of the proportions in socialist economy is determined by the requirements of the basic economic law of socialism.

> "The law of planned development of the national economy can yield the desired result only if there is a purpose for the sake of which economic development is planned. . . . This purpose is inherent in the basic economic law of socialism." Stalin, *Economic Problems of Socialism in the U.S.S.R.*, 1952, English edition, p. 46.)

Consequently, the law of planned, proportional development of the national economy plays the part of a regulator of production in socialist economy in accordance with the requirements of the basic economic law of socialism.

The way in which the requirements of the basic economic law of socialism are met at each particular stage depends on the level of development of the productive forces which has been reached, the material resources which are available, and the internal and external situation of the socialist country. The proportions in the national economy are fixed in accordance with these factors and on the basis of the law of planned proportional development.

The major proportions in the development of the national economy include in the first place a correct relationship between the production of means of production and the production of consumer goods. As was stated above, for continuous growth of production on the basis of a rising technical level branches producing means of production must develop more rapidly than branches making consumer goods. The development of heavy industry is a prerequisite for technically equipping all branches of the national economy, including the light and food industries, which produce consumer goods, and for their continuous growth.

A correct relationship between the two departments of social production therefore requires above all priority development of branches producing means of production, especially heavy industry with engineering as its core. Further, it requires a

growth of the consumer goods' branches sufficient to satisfy the continuously increasing needs of the mass of the people to the maximum extent possible at the given level of productive forces.

The development of those branches of industry which produce articles of mass consumption is realised on the basis of the development of heavy industry in the U.S.S.R. During the period from 1925 to 1954 the production of means of production as a whole increased more than 60 times and the production of consumer goods 14 times. In 1954 the production of means of production from the whole of industry increased about 3·5 times compared with 1940 and the production of consumer goods almost doubled. The level reached in the production of consumer goods and the rate of its growth are still not in accord with the increased needs of the population for these goods. Real conditions have been established for a rapid increase in the production of consumer goods on the basis of the success achieved in developing heavy industry.

In view of this, the Communist Party and the Soviet State, on the basis of priority development of heavy industry, are putting into effect a large programme for the rapid growth of agriculture and the light and food industries, so that within a short period the production of consumer goods will be considerably increased and the material conditions and cultural level of the Soviet people will be further improved.

Fixing correct proportions between industry and agriculture is of major importance for planned development of the national economy. The proportions in the development of industry and agriculture must ensure, on the one hand, the leading position of industry, which equips agriculture with advanced technique and supplies manufactured goods to the countryside, and on the other hand, the further growth of State farm and collective farm production, so as to supply the urban population with food and industry with raw materials.

During the period of its existence, socialist agriculture has been very successful on the basis of the collective farm system. But the rate of growth of agriculture is insufficient for satisfying society's growing needs for agricultural products. From 1940 to 1952, industrial output increased 2·3-fold but the gross output of agriculture in comparable prices increased overall by only 10 per cent. Important branches of agriculture such as grain production, livestock farming, and the production of potatoes and vegetables, are particularly behind. As a result an obvious disparity has appeared between the increased need of the population for grain, meat, dairy products, vegetables, fruit, etc., on the one hand, and the level of agricultural production on the other.

The lag of agriculture behind the growing needs of society has made it impossible to increase consumption to the level it could have reached at the present stage of the country's industrial development. The great development of heavy industry has established conditions for a steep advance in socialist agriculture. It has become possible and necessary to speed up the rate of growth of agricultural production in every way. In view of this, the Plenum of the Central Committee of the Communist Party of the Soviet Union in January 1955 set the following task: to achieve in the next five or six years a gross harvest of grain in the country of not less than 10,000 million poods annually, and to double, or more than double, the output of the chief agricultural products, so that the growing needs of the population for foodstuffs are satisfied in full and the light and food industries are supplied with the necessary raw materials.

Industry and agriculture are closely interdependent, as are, in their turn, the separate branches of industry and agriculture. Because of this, the uninterrupted development of production is possible only if there are correct proportions between the separate branches within industry—for instance, between extractive and processing industry—and within agriculture, as well as between industry and agriculture as a whole. For example, the lag in livestock farming over a long period has held up the further development of the light and food industries, and in turn the growth of livestock farming was retarded by insufficient fodder supplies, by the lag in grain farming. The Soviet State is getting rid of this disparity by a decisive improvement in livestock farming, in its sources of fodder supplies and in grain farming.

If the continuously rising demand of the working people for agricultural produce and manufactured goods is to be met smoothly and in a planned way, the supply of commodities for personal consumption must correspond to the rising money incomes of the population at the given price-level, and there must be the right proportions between the growth of output of consumer goods and the development of trade turnover.

As a result of the considerable increase in recent years of the real wages of workers and other employees and also of the incomes of collective farmers, the demand of the working people for various commodities is developing much more rapidly than the increase in the output of mass consumer goods and food products. The elimination of this disparity is the purpose of the programme for a steep rise in agriculture and an increase in the output of manufactured

commodities and food, on the basis of a further development of heavy industry, which programme was adopted and is being successfully fulfilled by the Communist Party and the Soviet State.

Socialism has abolished the antagonistic contradiction between accumulation and consumption which is inherent in capitalism. In accordance with the requirements of the basic economic law of socialism, the correct proportions between accumulation and consumption are those which enable both the continuous growth of socialist production and the systematic improvement of the material welfare and the cultural level of the mass of the people.

The proportional distribution of resources among the different branches of the national economy largely depends on how far these resources are rationally utilised. If, for example, the average expenditure of metal per lathe is reduced, then the total requirements in metal for the machine-tool industry is reduced, or the output of machine tools is increased. This in turn leads to a change in the proportions between metallurgy and engineering. Rational and economical utilisation of resources is one of the conditions which ensure the constant and rapid growth of industry.

Proportional development of the national economy implies the rational location of socialist production. Industry must be brought as near as possible to sources of raw materials and to the consuming regions, and the economy of each region must be developed as a whole, taking its special features into account, correctly co-ordinating branches of production, and using local resources as fully as possible. Irrational and lengthy hauls by rail and water must be reduced. The national republics must be developed economically and culturally.

Socialist location of industry rests on the country's division into economic regions. *Division into economic regions* is a planned division of the whole of the country's territory into separate large regions in accordance with their economic and natural features.

As already stated, thanks to the advantages of the socialist system, considerable achievements have already been obtained in the rational location of industry in the U.S.S.R. These advantages, however, are by no means utilised to their full extent and consequently there are shortcomings in the location

of industry which give rise to partial disproportions in the national economy, hinder a more rational and effective use of local resources and result in superfluous long hauls.

Thus the disproportion between the production and consumption of various sorts of ferrous rolled metal in the South, the Urals and Eastern Siberia inevitably results in massive hauls of ferrous metals. The lag of coal extraction behind coal requirements in the European part of the U.S.S.R. means that coal has to be transported over enormous distances.

About 2,000 wagon loads of uncleansed wool are annually transported from Siberia and Central Asia to the wool-cleansing works situated in the Ukranian S.S.R., but some 500 wagon loads of cleansed wool are annually sent from the Ukraine to Siberia, Central Asia and the Far East.

The elaboration of a scientifically based plan for the development and location of the major branches of Soviet industry during a period of ten to fifteen years has become vitally necessary.

In the conditions of the transition from socialism to the higher phase of communism proportions are also required in developing the national economy which will further strengthen and develop socialist production and gradually establish the material production basis for communism and an abundance of goods.

In a situation in which a number of imperialist powers are carrying out an armaments drive, while aggressive imperialist circles are developing plans for war against the countries of the socialist camp, the economic proportions in socialist economy must provide the socialist country with a powerful economic base in the event of a hostile attack from abroad. A rapid growth of socialist industry and collective farm production is a most important prerequisite for strengthening the economic independence and defensive capacity of the U.S.S.R.

The existence of a unified and powerful socialist camp makes essential the planned co-ordination of the economy of all the countries in this camp. Economic collaboration and mutual assistance between the U.S.S.R. and the People's Democracies makes it easier to solve problems of socialist construction, leads to an increase in these countries' economic independence of the capitalist world and a strengthening of their defensive capacity and promotes the building of communism in the Soviet Union.

The Law of Planned Development of the National Economy and Socialist Planning

The requirements of the law of planned development of the national economy are put into effect by the Communist Party and the Socialist State, by means of plans which organise and direct into useful channels the creative activity of the mass of working people. Planned management of the national economy is a very important feature of the work of the Socialist State in its function as economic organiser.

> "By developing economy in a planned way, the Socialist State is able to ensure uninterrupted, rapid and all-round growth of production and maximum satisfaction of the needs of the people. In the hands of the Soviet State, planning is a mighty force, organising and guiding the labour of millions of people." (N. A. Bulganin. "The Tasks of the Further Growth of Industry, Technical Progress and Improvement of the Organisation of Production." *Report of the Plenum of the C.C. of the C.P.S.U.*, July 4, 1955.)

Socialist planning is built up on a strictly scientific basis. It requires constant generalisation of the practical experience in building communism and the utilisation of all the achievements of science and technology. Managing the national economy in a planned way means being able to anticipate. Scientific foresight is based on knowledge of objective economic laws and on the needs of development in the material life of society which have matured.

The principal prerequisite for the correct planning of socialist economy is that the law of planned development of the national economy must be mastered and skilfully utilised.

The law of planned development of the national economy must not be confused with the planning of the national economy carried out by the appropriate bodies of the Socialist State, nor with the annual and five-year plans of national economic development. The law of planned development of the national economy is an objective economic law. It enables State institutions to plan social production correctly. But possibility must not be confused with reality. To turn possibility into reality it is necessary to learn how to apply the law of planned development, and it is necessary to compile plans which fully reflect the requirements of the law.

In practice, plans do not always fully reflect the requirements of the law of planned development of the national economy. When these requirements are not met, the law of planned development of the national economy makes itself felt by the appearance of disproportions in individual parts of the economy, and by interruptions in the normal process of production and circulation. If it is planned, for example, to produce a certain number of cars, but the plan does not provide for production of the necessary amount of sheet steel, this may lead to underfulfilment of the car production plan. Similarly, the plan for smelting pig-iron will not be effective unless it is backed by the corresponding production of coke.

Planning bodies have to take the requirements of the law of planned development correctly into account in compiling plans, They must not permit disproportions to appear, and if disproportions do appear the planners must take steps to get rid of them in time. Material, financial, and labour *reserves* are of great importance for the uninterrupted development of the national economy. They make it possible to get rid of disproportions quickly when they appear in different parts of the economy, or to prevent their appearance: they make flexible switching of resources possible.

Planning the national economy can therefore be successful, and can ensure its proportionate development and uninterrupted growth of production, provided that it correctly reflects the requirements of the law of planned development of the economy and conforms in all respects to the requirements of the basic economic law of socialism.

Socialist planning makes use also of the other economic laws of socialism. Thus, making use of the economic law of distribution according to work done is an essential condition for planned management of the economy. This law provides material incentives for workers to increase labour productivity and is one of the prime movers of socialist production.

Socialist planning presupposes the need to make use of economic instruments connected with the operation of the law of value: prices, money, trade and credit. Cost accounting is an instrument of planned management, and provides incentives to produce economically, to mobilise internal reserves, to reduce the cost of output, and to increase the profitability of an enterprise.

Socialist planning requires a profound study and fullest utilisation of modern achievements of science and technology at home and abroad for the purpose of ensuring rapid technical progress in all branches of the national economy, constant improvements in technology and a steady rise in the productivity of labour.

The Communist Party and the Socialist State start from the requirements of the economic laws of socialism, draw general conclusions from their experiences of building the economy and of cultural development, and take into account the whole complex of internal and external conditions in which the country of socialism finds itself. On this basis they fix at each stage the most important economic and political problems to be solved by the State plans. The volume of output, the rate at which production is to expand in each branch of the national economy, the amount of investment, the level of wages, etc., are all determined on this basis.

Planned management of Soviet economy is carried out by the Councils of Ministers of the U.S.S.R. and the Union Republics on the basis of directives from the Communist Party. State plans are worked out on the scale of the national economy as a whole, and also by branches and by individual government departments, by republics, territories, regions, and economic districts. Plans are worked out and their fulfilment is supervised by the State Commission of the Council of Ministers of the U.S.S.R. for Long-Term Planning (Gosplan U.S.S.R.), by the State Economic Commission of the U.S.S.R for Current Planning (Gosekonomkomissiya U.S.S.R.), by Union and Republic ministries, and by those local Soviets which have their own planning organs.

Socialist planning is constructed by co-ordinating *long-term plans*, which embody the basic line of development over a period of years, with *current plans*, which are specific work-programmes covering shorter periods. Long-term plans include both five-year plans of national economic development and plans which cover a longer period. Current plans include *annual plans*, and are elaborated on the basis of the long-term plans. As socialist economy develops, long-term planning assumes ever greater significance. .V. I. Lenin pointed out that "it is impossible to work without having a plan intended for a lengthy period and for achieving serious success". (V. I. Lenin, "Report on the

activity of the Council of People's Commissars at the Eighth All-Russian Congress of Soviets", *Collected Works*, Russian edition, vol. XXXI, p. 479.)

It is part of the task of the State Commission of the U.S.S.R. for Long-term Planning to work out the Five-Year Plans, split up into separate years, and also the long-term plan of development of the branches of national economy and of the whole of the national economy over a longer period, ten to fifteen years.

It is part of the task of the State Economic Commission of the U.S.S.R. to work out, on the basis of the Five-Year Plans, the annual State plans of the development of the national economy and the plans for the supply of materials and technical equipment, split up into quarterly periods. Every works, mine, State farm, M.T.S. and other State enterprise has its *technical and production financial plan*, compiled on the basis of planned targets fixed by the State: this is an overall plan of the production, technological, and financial work of the enterprise concerned.

In the planned development of socialist economy, centralised planned management of the economy, achieved by fixing the basic planning indices centrally, has to be combined with affording local bodies the necessary independence and initiative in planning production. In the work of planning it is of extremely great importance to take into account local conditions and specific local features. A stereotyped approach to planning which ignores these specific features ignores also the requirements of the law of the planned development of the national economy. Excessive centralisation of planned management, and attempts to plan everything from the centre down to the last detail, without sufficient knowledge and consideration of local conditions and possibilities lead to mistakes in planning, fetter local initiative and prevent the full utilisation of local resources and of the tremendous reserves which can be found in different branches of socialist economy and in different enterprises.

The special features of State planned management of collective farms result from the nature of co-operative and collective farm property. Planned management of collective farms by the Socialist State rests on the independent initiative of the mass of collective farmers. The initiative of the collective farms and

their members is one of the decisive factors in improving agriculture and in making full use of the economic and natural conditions in every geographical district and every collective farm.

A correct planning system presupposes that *basic and decisive* indices and targets for agricultural production, and for deliveries of agricultural produce to the State, are fixed for each region, territory and republic by the central planning bodies. These assignments are fixed according to commodity output, starting out from the need to ensure that the needs of the population as regards food, and of industry as regards raw materials, will be satisfied.

Guided by the assignments for the delivery to the State of produce from field cultivation and animal husbandry, the collective farms determine, at their own discretion, the sizes of the areas sown to various crops and also the productivity of animal husbandry and the number of the individual types of livestock. *The annual production plans*, worked out by the boards of the collective farms, are examined and adopted at general meetings of the collective farmers.

Further improvement in socialist planning methods will require consistent centralisation in planning basic and deciding indices, while at the same time extending in every way the part played by local bodies, industrial enterprises, and State and collective farms in planned management of production and encouraging their initiative. It also presupposes a differentiated approach in planning, suited to every particular economic region, agricultural zone, enterprises and collective farm.

In planned management of the national economy, its *key links* must be singled out. The plan singles out the most important branches, on which the successful fulfilment of the whole national economic plan depends. The key links of the Five-Year Plans are the branches of heavy industry, including engineering, since they determine the development of all branches of industry and the national economy as a whole. These branches have priority in the allocation of means of production, labour-power, and money. The other branches are planned to conform to the leading branches, so that the whole economy will advance on this basis, and its component parts will be co-ordinated as rationally as possible.

The law of planned, proportional development of the

national economy requires that the development plans of separate branches should be strictly co-ordinated and interconnected in a single economic plan.

> "The plans of the various branches of production must be strictly co-ordinated, combined, and together made to constitute that single economic plan of which we stand in such great need." (Lenin, "Report on the work of the Council of People's Commissars", delivered at the Eighth All-Russian Congress of Soviets. *Selected Works*, 12-vol. edition, vol. VIII, p. 272.)

Economic plans embrace a definite range of indices, in both *physical* terms (types and variety of output, etc.) and *money* terms (amount of output, cost of production, revenue and expenditure, etc.). Physical and monetary indices both include what are distinguished as *qualitative* indices (growth of labour productivity, reduction in costs, profitability, improvement in the quality of output, and efficiency of utilisation of the means of production such as equipment, machinery, machine tools, raw materials, etc.). The main index in agricultural production is the maximum quantity of output per 100 hectares (250 acres) of agricultural land, with the least expenditure of labour and means of production per unit of output.

The plan of development of the national economy is divided into the following sections: the production programme for industry, agriculture; plan of transport and development of communications; plan of capital construction work and of development and introduction of new techniques; plan of State supplies for the national economy; labour and wages plan; plan of trade turnover and deliveries; plan of social and cultural measures; plan of production costs in industry; plan of the development of the national economy in each of the Union Republics and economic areas; summarised section of the plan of national economy, including total indices of the development of the national economy and the most important targets of separate branches of industry. The final total index of the plan is the growth of the national income and the relationship in it between the funds of consumption and accumulation. The planning of prices, finances (the State Budget, credit and cash plans of the State Bank) and the planning of foreign trade are a component part of State planning.

The plan of development and introduction of new techniques covers the largest assignments, economically important on a nation-wide scale, for the mechanisation and automation of production

processes, the mastering of the production of new machines and materials, for the introduction of advanced technological processes and also the most important scientific research, and designing and experimental work connected with new techniques.

The correct location of the productive forces, the complex development of economic areas and the co-ordination of the plans of the national economy of the U.S.S.R. with the economic plans of the People's Democracies assume ever-increasing importance in the field of socialist planning.

The elaboration of a system of *balances* is one of the most important methods by which correct national economic proportions are established, in conformity with the requirements of the law of planned development of the national economy. The Socialist State uses balances to lay down proportions in national economic development, as expressed in physical and monetary terms, to decide the amount of resources and to distribute them both among the different branches of production and by types of output. In the balances, resources available are set down against requirements, and this makes it possible to discover bottlenecks in the economy and discrepancies in the level and rate of development of different branches, and to adopt measures for getting rid of the bottlenecks. The system of balances also makes it possible to uncover additional resources from savings in materials and improved utilisation of equipment. These resources are utilised to increase production and consumption.

Balances are divided into material (physical) balances, balances in money terms, and manpower balances.

Material balances show the relation between production and consumption of a particular product or group of products, in physical terms. Material balances are compiled for the most important products—there are for example balances of machine tools, ores, metal, cotton, and other means of production; and also balances of consumer goods, such as meat, sugar, butter, etc.

Material balances are needed in compiling material supply plans, by which means of production are allocated to all branches of the national economy, distinguished according to ministries and government departments. These plans provide for the better utilisation of equipment, raw materials, fuel, etc., through the introduction of progressive standards of output.

Balances in money terms include the balance of money income and expenditure of the population, the balance of the national income and its distribution, etc.

Manpower balances determine the labour and skilled labour requirements of the national economy and the sources from which these requirements will be met.

The most comprehensive balance is the *balance of the national economy* which represents a system of economic indices characterising the basic relationships and proportions in socialist economy. The balance of the national economy includes the following basic balances: balance of the total social product, balance of the national income, balance of labour.

Socialist planning reflects the requirements of the law of planned development of the national economy, and is therefore *directive* in character. State plans are not prognostications but directives, binding on governmental bodies and defining the direction of economic development for the whole country.

After State plans have been approved by the supreme bodies of the Socialist State they acquire the force of law, and it is obligatory to carry them out. Business managers are obliged to see that the plan is fulfilled by the respective enterprises rhythmically and evenly, throughout each year and each quarter, in variety of goods as well as in total gross output. They also have to strive for a consistent improvement in the quality of output, and a reduction in costs as fixed in the plan.

The most important, specific feature of socialist planning is that it combines the ensuring of proportionality with a constant growth of socialist production and technical progress. The proportions of the development of the national economy established in the plan are not something rigid and immutable. Socialist planning is practical and rallies people to get things done. The plans give direction to the work of millions of people on a nation-wide scale, and provide a clear perspective to the mass of working people, inspiring them to great achievements in their work. The plan is the living creative work of the mass of the people. The reality of production plans lies in the millions of working people who are creating a new life.

Drawing up the plan is merely the point at which planning starts. Lenin called the plan for the electrification of Russia (Goelro) a second party programme, and emphasised that "this programme will be improved, elaborated, perfected, and modified, every day, in every workshop and in every volost". (Lenin, "Report on the work of the Council of People's Commissars", delivered at the Eighth All-Russian Congress of Soviets.

Selected Works, 12-vol. edition, vol. VIII, p. 275.) Every plan is made more precise, modified and improved on the basis of the experience of the masses, taking into account the actual way in which it is being fulfilled: for no plan can anticipate all the possibilities latent in socialist society, which are disclosed only in the course of the work. In the struggle to fulfil the plan in factory and mill, State farm and collective farm, the creative initiative and activity of the masses comes into play, socialist emulation develops, and new reserves for speeding-up economic development are discovered. The work of rallying the mass of the people is carried out by the Communist Party and, under its leadership, by State and public organisations, the trade unions and the Young Communist League. The active participation of the mass of the people in the effort to fulfil the plans for developing the national economy is one of the most important conditions for the successful fulfilment and overfulfilment of the plans, for accelerating the rates of construction of Communist society.

Socialist plans can act as a rallying force only if the planning bodies are guided by the new and advanced developments, which appear in the practical work of building communism, and in the creative efforts of the mass of the people. Calculations for plans must not use standards of labour outlay, use of equipment, and consumption of fuel and materials, which are based on arithmetical averages of the level of output achieved in production. They must use *advanced standards and output rates*, abreast of the experience of the more advanced enterprises and workers.

The Communist Party and the Soviet State struggle hard, on the one hand, against attempts to compile underestimated plans, which do not spur anyone on to greater efforts and take the bottlenecks as their criterion, and, on the other hand, against speculative planning, which does not reckon with the realistic possibilities of developing socialist economy. Socialist planning involves a persistent struggle against tendencies to provincialism and departmentalism. These anti-State tendencies are expressed in attempts to counterpose the interests of a particular enterprise, district, or government department to the general interests of the State.

Checking plan fulfilment is one of the most important aspects of planned management of the national economy, and makes it

possible to establish how far the plan correctly reflects the requirements of the law of planned development of the national economy, and how it is being fulfilled. It makes possible the discovery in good time of any disproportions which exist, the forestalling of the appearance of new disproportions in the economy, the finding of new productive reserves, and the making of appropriate adjustments in the national economic plans.

Planned management of socialist economy requires a unified system of national economic accounting. V. I. Lenin taught us that "Socialism is accounting". Planned socialist construction is inconceivable without correct accounting, and accounting is inconceivable without statistics. In socialist economy accounting and statistics are intimately connected with the national economic plan. Statistical data on plan-fulfilment are essential material in compiling the plan for the ensuing period. The socialist system of accounting and statistics makes it possible to supervise the course of the fulfilment of the whole plan and of its separate parts.

Advantages of Planned Economy

Socialist society possesses tremendous advantages over capitalism owing to the planned development of the national economy.

In capitalist society, proportionality is fortuitous and the economy develops cyclically, by means of crises which recur periodically. In contrast to this, socialist economy develops uninterruptedly along an ascending curve and at rapid rate, on the basis of proportions laid down by the Socialist State in conformity with the requirements of the law of planned development of the national economy and the basic economic law of socialism. Socialist economy is free from economic crises, which break up the economy, do colossal material damage to society, and periodically throw it back.

During the pre-war Five-Year Plans (a period of about thirteen years), the Soviet Union made a leap which transformed it from a backward and agrarian country into an advanced and industrial one. In this period the capitalist world experienced two economic crises (1929–33 and 1937), which were accompanied by tremendous destruction of the forces of production, a huge growth in unemployment and acute further impoverishment of the mass of the people. In the post-war period, socialist economy in the U.S.S.R. has continuously gone forward according to plan, while the U.S.A. and

a number of other capitalist countries experienced in these years the 1948–9 crisis, which caused a decline in output and an increase in unemployment. There was also a crisis fall of production in the U.S.A. in 1953–4.

Unemployment is eliminated from socialist planned economy, so that the whole of the labour-power of society is utilised. Capitalist economy inevitably gives rise to unemployment, and the capitalists use unemployment as a means of providing their enterprises with cheap labour-power.

Planned economy presupposes that the development of production will be directed to satisfying the needs of the whole of society. Capitalists invest in those branches in which the rate of profit is higher.

In socialist planned economy, science and technology develop in a planned way, corresponding to the needs of the economy. Under capitalism, technological development is governed by the law of competition and anarchy in production. It takes place extremely unevenly, and this inevitably increases disproportionality in production.

The profitability principle of private capitalism is governed by the aim of acquiring the maximum profits. In contrast to this, the law of planned development of the national economy, and socialist planning, ensure a higher form of profitability: profitability considered from the point of view of the economy as a whole.

Socialist planned economy frees society from the huge wastage of social labour inherent in capitalist economy; it makes possible the most economical and effective use of all resources, both those existing within enterprises and on a national economic scale, continually uncovering new sources and reserves for increasing production.

By planning, the Socialist State ties together the production of different enterprises and brings about the most rational location of socialist production.

The experience of the Soviet Union in the field of planning the national economy attracts the attention and interest of all countries of the world. Bourgeois scientists preach "planned capitalism", sowing illusions among the working people that the monopolies, by eliminating competition, provide the conditions for planning capitalist economy and eliminating economic crises. But, as we have shown, the decisive prerequisite for

planned management of economy is the existence of social ownership of the means of production and of the law of planned, proportional development of the national economy. Capitalist society, however, is dominated by private ownership of the means of production and the law of competition and anarchy of production. The limitation of competition in the monopoly enterprises and industries is accompanied by a sharp intensification of competition among the monopolies themselves and also between the monopoly and non-monopoly enterprises and industries. All attempts at planning the national economy and eliminating crises of overproduction in the capitalist countries inevitably meet with failure. The Soviet experience of planning the national economy is widely used in the People's Democracies, which are successfully developing their economy on the basis of State plans.

BRIEF CONCLUSIONS

(1) Planned development of the national economy is made necessary and possible by social, socialist ownership of the means of production. Planned, proportional development of the economy is an economic law of socialism.

(2) The law of planned, proportional development of the economy is a regulator of the distribution of means of production and manpower in socialist economy, in accordance with the basic economic law of socialism. It requires the planned management of the national economy, the development of all branches of socialist economy on a proportional basis, the fullest and most effective use of material, labour and financial resources.

(3) Socialist planning is successful if it correctly meets the requirements of the law of planned development of the national economy, and conforms fully to the requirements of the basic economic law of socialism. In the actual planned management of the economy, economic instruments connected with the operation of the law of value are utilised. The balance method of planning is of great importance in fixing correct proportions for national economic development.

(4) Planned management of the national economy is a most important aspect of the Socialist State's function as economic organiser. National economic plans are worked out by State

bodies on the basis of directives determined by the Communist Party, and are based on scientific generalisation from the experience of socialist construction, on taking into account the advantages afforded by a socialist economic system, and on the external and internal situation. State plans are geared to everything advanced which arises in the practice of communist construction, in the creative work of the masses, and are directive in character. To carry on the national economy in a planned way, the mass of the people must be rallied to fulfil and exceed the plan targets, and daily checking of the fulfilment of the plan must be organised.

(5) A very great advantage of socialism over capitalism is planned development of the national economy, without crises. This brings about a saving in resources which the bourgeois system cannot achieve, and makes it fully possible for all sides of production to grow continuously and rapidly in the interests of the mass of the people.

CHAPTER XXXI

SOCIAL LABOUR IN SOCIALIST SOCIETY

The Character of Labour in Socialist Society.

The consolidation of socialist relations of production denotes a fundamental change in the character of work. Labour-power has ceased to be a commodity. The working people, with the aid of the means of production belonging to them, work for themselves, for their own society. Work in socialist society is *work freed from exploitation.*

> "For the first time after centuries of working for others, of working in subjection for the exploiter, it has become possible to *work for oneself*, and moreover to employ all the achievements of modern technique and culture in one's work." (Lenin, "How to Organise Competition", *Selected Works*, 1950, English edition, vol. II, Part 1, p. 368.)

Under capitalism free labour presents itself directly as private labour and its social character is seen only in the market, behind the back of the commodity producers, whereas labour in socialist society has a *directly social character*, and is organised in a planned way on a country-wide scale. In consequence of this, the labour of each individual worker appears directly as part of the total social labour. The planned organisation of social labour provides the opportunity, unknown under capitalism, of making the fullest use of labour reserves on the scale of the whole society.

Under socialism, the position of the working man in society has been fundamentally changed. In contrast to capitalism, where man's status is determined by his social origin and wealth, man's status in socialist society is determined by his work and personal abilities alone.

Freedom from exploitation and the changed status of the working man in society evoke a transformation in man's view of labour giving rise to a new attitude to work. In the course of centuries the exploiting system created among numerous

generations of working people an aversion to work, as to an onerous and shameful burden. Socialism transforms labour into a matter of honour, valour and heroism and imparts to it an increasingly *creative* character. In socialist society the working man, if he works well and displays initiative in improving production, is surrounded with honour and glory.

All this gives rise to new *social incentives* to labour that are unknown under capitalism.

At the same time labour in socialist society has not yet become a prime necessity of life for all members of society; work for the common good has not yet become a matter of habit. In the socialist stage, survivals of capitalism in man's consciousness have not yet been finally overcome. Alongside the majority of workers honourably fulfilling their obligations to society, and displaying creative initiative in work, there are workers who treat their obligations dishonourably and violate labour discipline. Such people try to give as little as possible to socialist society and to receive as much as possible from it.

In socialist society there are still considerable survivals of the old division of labour—the essential differences between mental and physical labour, between the labour of worker and peasant, the differences between skilled and unskilled labour and between heavy and light labour. These survivals are only being overcome gradually, as the productive forces of socialism develop and the material production basis of communism is created.

It follows from all this that the *personal material interest* of the worker in the results of his work as an incentive to the development of production is of tremendous importance. This interest is secured by the worker's dependence for his position in society on the quantity and quality of his labour. Making use of the material interest of every worker in the results of his labour is one of the fundamental methods of socialist economic management. Lenin pointed out: "Every important branch of national economy must be built up on the principle of personal incentive". (Lenin, "The New Economic Policy and the Tasks of the Political Education Departments", *Selected Works*, 12 vol. edition, 1946, vol. IX, p. 265.)

The principle of material interest is most extensively applied in the wages of workers and employees, in the distribution of incomes in the collective farms, in the organisation of

cost-accounting, in the fixing of prices of industrial and agricultural products, etc.

The radical change in the nature of labour under socialism provides the necessary conditions for a systematic and rapid growth of its productivity, for creating a productivity of labour that is higher than that under capitalism.

Labour as an Obligation of Members of Socialist Society. Exercise of the Right to Work

Socialism and labour are indivisible. Socialism has put an end to the blatant contradiction of the capitalist system, whereby an exploiting upper crust of society leads a parasitic existence while the working masses bear the yoke of labour beyond their strength, only interrupted by periods of compulsory inactivity through unemployment. In eliminating capitalist ownership of the means of production, socialism thereby abolished the conditions in which one class—the owners of the means of production—could live on the labour of another class of people, who were deprived of the means of production. Since personal labour alone is a means of livelihood in socialist society, social ownership of the means of production denotes the equal obligation of citizens to participate in social labour. Labour in the U.S.S.R. is an obligation and a matter of honour for every able-bodied citizen.

The socialist system, for the first time in the history of mankind, put into practice not only the equal obligation of all able-bodied citizens to work, but also the equal right of all citizens to work. In this way the age-old dream of the working masses has been brought to life in socialist society. The right to work results from the social ownership of the means of production, which gives to every citizen equal access to work on the socially-owned land and in the socially-owned factories and mills. *The right to work* is the right of each able-bodied member of society to obtain secure work paid in accordance with its quantity and quality. This right has been given legislative force in the Constitution of the U.S.S.R., and is guaranteed in practice by the socialist organisation of the national economy, the steady growth of the productive forces of society, and by the elimination of the possibility of economic crises and of unemployment.

Unemployment—the scourge of the working people under capitalism—has been eliminated in the U.S.S.R. once and for all; the worker is no longer under the threat of being thrown out of work and deprived of the means of livelihood. The abolition of unemployment and of the uncertainty of the workers for the morrow, the abolition of impoverishment and pauperism in the countryside, are a great achievement of the Soviet people.

The effective right to work enables the labour resources of society to be utilised on an enormously increased scale for the development of production. The continuous growth of production in socialist society logically leads to a steady growth in the number of workers and employees.

The number of manual and clerical workers in the national economy of the U.S.S.R. at the end of the year amounted in 1928 to 10·8 million, 1932, 22·8 million, 1937, 27 million, 1940, 31·5 million, 1954, about 47 million.

The elimination of unemployment in the towns and of rural over-population and poverty in the countryside, together with the continuous growth of socialist production, fundamentally alter the conditions in which enterprises are provided with labour-power. Under capitalism the demand for labour-power is satisfied without any element of planning, out of the reserve army of unemployed and rural surplus-population. In socialist society, on the contrary, enterprises obtain their labour in a planned way, by organised recruitment, training and allocation.

Capitalism makes the worker an appendage of the machine and stifles man's abilities. Socialism, on the contrary, liberates labour from exploitation and gives all citizens free access to education, thereby providing all the necessary conditions for the development and free play of the capacities of the working people.

The continuous growth of socialist production on the basis of the highest techniques requires a steady rise in the cultural and technical level of the working people, and an increased proportion of skilled workers in all branches of the national economy. The training of workers in a planned way and on a mass scale has been achieved under socialism for the first time in history.

The rise in the cultural and technical level of the working people is secured, above all, by the development of education. In the Soviet Union universal compulsory seven-year education has been achieved and the transition to universal compulsory secondary (ten-year) education is taking place. Special secondary and higher education has been widely developed. The cultural characteristics of the working class and the peasantry are changing. The proportion of workers and collective farmers who have had seven-year and secondary education is growing.

The rise of the cultural and technical level of the working people also takes place through production and technical training, which includes both training of new workers and improvement of the workers' existing skill while continuing at their trade. To satisfy the demand for skilled personnel in the key branches of the national economy, a system for training State labour reserves has been created in the U.S.S.R. It possesses a network of industrial and railway schools, and well as factory and mill schools. Those attending these schools are maintained by the State during their period of study. Together with the system of State labour reserves, an important source for supplementing the numbers of skilled workers is the mass production training of workers at their places of work, through individual and team study and in courses of instruction which embrace millions of working people. There is a rapidly increasing number of intelligentsia and highly qualified specialists drawn from the ranks of the workers and peasants.

By the beginning of 1952 more than half the total number of industrial workers in the U.S.S.R. had already received an education up to the 5th or 6th classes at secondary school. The number of workers who have finished the ten-year schools is increasing.

In the course of fourteen years (from 1941 to 1954 inclusive) more than 7½ million young skilled workers in various trades were trained at the expense of the State in the industrial and railway schools, in factory and mill schools, and in schools for the mechanisation of agriculture. During four years of the fifth Five-Year Plan a yearly average of 2,500,000 new skilled workers were trained by individual and team study and at courses of instruction, and some 3,500,000 workers improved their skill. In the same period about 2,500,000 collective farmers annually attended three-year agronomic and stock-breeding courses. The system of correspondence courses for workers and collective farmers is also widely developed.

Distribution According to Work—An Economic Law of Socialism

The socialist mode of production also determines its appropriate form of distribution. With socialist society in mind, Engels wrote:

> "Distribution, in so far as it is governed by purely economic considerations, will be regulated by the interests of production, and production is most encouraged by a mode of distribution which allows *all* members of society to develop, maintain and exert their capacities with maximum universality." (Engels, *Anti-Dühring*, English edition, 1954, pp. 277–8.)

In socialist society, distribution according to work most fully corresponds to this requirement.

In the first phase of communism, the productive forces have not yet achieved a level high enough to provide the abundance of products which is necessary for distribution according to needs. As already stated, labour under socialism has not yet become life's prime need for the entire mass of the working people and, in consequence, workers have to be given a material incentive. Under socialism there is still a difference between skilled and unskilled labour, and between the labour of the conscientious worker and of the worker whose attitude to his duties is not conscientious. In consequence, the distribution of articles of consumption has to take into account the differences in the quantity and quality of the labour expended by each worker in socialist production.

Hence the need arises for "the *strictest* control, by society *and by the State*, of the measure of labour and the measure of consumption". (Lenin, "State and Revolution", *Selected Works*, English edition, 1951, p. 300.) Socialist society has to supervise people's participation in labour, take account of the differences in skills, and lay down output standards and scales of payment, so that he who works most and best receives a greater share of the product of social labour.

Consequently distribution according to work is the sole possible and necessary method of distributing material wealth in socialist society. By giving every worker a personal material interest in the results of his labour, distribution according to work is a powerful motive force in developing production. It

encourages higher productivity of labour and thereby helps to raise the well-being of the working people.

By making each worker's share of the product of social labour depend directly on the degree of his participation in social production, distribution according to work links the personal interest of the worker with the general interests of the State.

Distribution according to work necessitates strict allowance for the differences between skilled and unskilled work. Higher payment for skilled work does justice to the skilled worker, and gives unskilled workers the prospect of rising into the ranks of the skilled. This stimulates the cultural and technical development of the working people, and brings about the gradual elimination of the essential differences between mental and physical labour.

Distribution according to work helps to eliminate fluctuations in the labour force and to build up stable cadres. This is of great importance for the improvement of the organisation of work in factories. Without a permanent body of workers who have mastered techniques and accumulated production experience, the successful development of socialist production is impossible.

Thus distribution according to work is an objective necessity, and is an economic law of socialism.

The economic law of distribution according to work requires distribution of products in direct accordance with the quantity and quality of work of each worker, with equal payment for equal work independently of the sex, age, race and nationality of the citizens of socialist society. The reward of labour both in industry and in agriculture should be built up so as to conform to this law.

The economic law of distribution according to work is applied by the Communist Party and the Soviet State in a determined struggle against petty-bourgeois equalising tendencies—that is, the equalising of wages independently of the quantity and quality of work performed, the workers' skill, or the productivity of their labour. Equalising tendencies are a reflection of the petty-bourgeois concept which sees socialism as a universal equalising of consumption, living conditions, tastes and needs. It inflicts great harm on production, leading to fluctuations of personnel, a fall in labour productivity and non-fulfilment of plans. In unmasking the petty-bourgeois concept of socialism,

Lenin explained the Marxist concept of equality. By equality, Marxism understands not the equality of physical and spiritual abilities, but social and economic equality. For socialism, this means the elimination of the private ownership of the means of production and of exploitation, equally for all; equal access to work with the socialised means of production; equal obligation for all to work; and a single principle for all, of payment according to work.

Socialist Co-operation of Labour

Socialism heralds a new and higher stage in the historical development of co-operation of labour, compared with preceding forms of society. *Socialist co-operation of labour* is the co-operation of workers freed from exploitation, and linked with each other by relations of comradely co-operation and mutual aid; it is based on the most advanced techniques. Socialist co-operation makes it possible for labour to be an immeasurably more powerful productive force than does capitalist co-operation. The methods of raising the productive capacity of social labour which are inherent in co-operation—application of the division of labour and machine technique, economy of means of production, etc.—are most fully developed in the conditions of socialism.

In contrast to private ownership of the means of production which restricts the scale of labour co-operation, social ownership greatly extends its limits and enables the combined labour of many people to be applied on a scale inaccessible to capitalism. This is reflected in a higher degree of concentration of production than under capitalism, in both industry and agriculture, and in the carrying out of the largest national economic measures.

A new labour discipline, which differs in principle from that of all preceding forms of society, is characteristic of socialist co-operation. Capitalist organisation of social labour is maintained by the discipline of hunger, by the separation of the workers from the means of production. *Socialist labour discipline* is the conscientious, comradely discipline of working people who are the masters of their country. In socialist society, maintenance of the necessary labour discipline is in accordance with the fundamental interests of the working masses. One of

the most important tasks of the Socialist State is the upbringing of the working people in the spirit of socialist labour discipline and systematic struggle against those who violate labour discipline.

Every kind of combined labour of many workers requires *management* which co-ordinates their activity and organises the necessary production links between them. Socialist co-operation of labour presupposes the stable and steady application of one-man management at all stages of the machinery of production and administration. *One-man management* is a method of administering socialist State enterprise and institutions which is based on the subordination of the mass of workers to the single will of the head of the labour process. It is combined with the broad creative initiative of the mass of workers in the process of production.

With the abolition of capitalist exploitation there has also been abolished the managerial despotism inseparable from it, and representing all-powerful capital, the arbitrariness of the employer and his management, and the lack of rights of the working masses. In socialist society the heads of enterprises, trusts, chief administrations and Ministries are trustees and servants of the people and of the Socialist State. Under capitalism the working people look on those in charge—directors, managers, floor managers and foremen—as enemies, since they direct production in the interests of the capitalists and of their profits. In socialist society those in charge enjoy the trust of the people, since they direct production in the interests, not of capitalist profits but of the entire people.

The elimination of exploitation fundamentally alters the relations between those who work by hand and those who work by brain. The antithesis of interests between the workers and the leading personnel of factories, which is characteristic of capitalism, has vanished. In a socialist economy the manual workers and the leading personnel of factories are members of a single working collective which is profoundly concerned with successful and improved production. Hence the creative partnership of the workers by hand and by brain, aimed at constantly improving production.

Under capitalism the labour of the workers is increasingly deprived of spiritual content and the gulf between mental and physical labour grows. In socialist society manual labour is

constantly enriched by spiritual content; physical and mental labour draw closer together, and the differences between them are gradually eliminated. This is reflected in the continuous rise in the cultural and technical level of the working class and the peasantry, and in the development of socialist emulation, which is a most important feature of co-operation of labour in socialist society.

Socialist Emulation

Socialist emulation is a method of raising labour productivity and perfecting production on the basis of the maximum participation of the working masses. Lenin pointed out that socialism provides the opportunity, for the first time, of applying emulation on a really wide basis and on a mass scale, embracing the millions of working people. Socialist emulation aims at fulfilling and overfulfilling national economic plans and securing a continuous increase of socialist production.

In place of such motive forces of production as the drive for profit and competition, socialism has given birth to new, incomparably more powerful motive forces. These consist above all of the profound incentive, which the basic economic law of socialism gives to the masses, to secure the development of social production. The subordination of socialist production to the aim of satisfying as fully as possible the growing needs of the working people serves as an inexhaustible source for raising the productivity of labour and perfecting industry on the basis of the highest techniques. Distribution according to work plays an important role in developing socialist emulation. By making the remuneration of labour dependent on the quantity and quality of the work done, distribution according to work encourages the display of the creative initiative of the masses in the process of production.

Socialist emulation differs fundamentally from the competition which predominates in bourgeois society.

> "The principle of competition is: *defeat and death for some* and victory and domination for others.
>
> "The principle of socialist emulation is: comradely *assistance* by the foremost to the laggards, so as to achieve an advance of all.

"Competition says: *destroy the laggards* so as to establish your own domination.

"Socialist emulation says: some work badly, others work well, yet others best of all—*catch up with the best* and secure *the advance of all.*" (Stalin, "Emulation and Labour Enthusiasm of the Masses", *Works*, English edition, vol. XII, p. 114.)

Socialist emulation expresses the comradely co-operation of the working people and their common struggle for a general growth of production. It sets free the creative abilities of the workers and makes possible the fuller utilisation of all the advantages of social labour which exist under socialism.

The characteristic feature of emulation, is the creative initiative of innovators and advanced workers, who have completely mastered advanced techniques, by discarding the old, out-dated standards and work methods and proposing new ones. In the struggle against all that is old and out-dated, advanced workers are opening new paths for the development of production and discovering new reserves for raising labour productivity.

The creative initiative of the working people does not allow production to stagnate or mark time; it is the source of constant advance and improvement in production. The key to the advanced work methods of the innovators is the fundamental improvement of the organisation of work and production (division of labour, combining jobs, working to schedule, etc.), and of production technology and techniques (intensification of technological processes, perfecting of instruments, appliances, machine tools, etc.). Advanced workers in agriculture apply new methods of scientific technique in cultivation and stock-breeding, raising crop yields and livestock productivity.

Socialist emulation presupposes rapid and widespread application of advanced experience. In socialist society the force of example takes mass effect for the first time, serving as a spur to continuous growth and improvement of production. This is attained, in the first place, by the active comradely assistance which the innovators extend to all workers in production in mastering advanced labour methods, and takes a variety of forms (personal instruction, guardianship of novices by old hands, schools for advanced workers and innovators, etc.); secondly, by the efforts of the mass of working people to overtake the advanced workers, to master their experience so as to

obtain a general increase in output; thirdly, by widely publicising emulation, comparing the work results of enterprises.

Widespread application of advanced experience is one of the most important tasks of economic managers and social organisations. On the basis of the advanced experience of innovators in production, the State economic bodies lay down progressive standards of labour expenditure and of utilisation of the means of production. These standards are used as the basis of production plans. The application of advanced experience, and the mastery of new standards and methods of work by the majority of workers, secure a new and higher level of labour productivity.

The Communist Party and the Soviet State take the lead of the socialist emulation of the masses and support it in every way possible. For successes in their work the working people receive not only material encouragement, but also awards of orders and medals, while outstanding innovators are awarded the titles of Heroes of Socialist Labour and receive prizes.

Socialist emulation in the U.S.S.R. has assumed *national dimensions*. The most widespread and effective form of emulation in factories is individual and team emulation. At the same time, emulation is developed between factory departments, entire factories, collective farms, M.T.S., State farms, districts, regions and republics. Emulation for high quality production, best utilisation of productive capacities, reduction of production costs, above-plan economies of material and financial resources and for high crop-yields and livestock productivity, has developed on a broad scale. More than 90 per cent of industrial workers participated in socialist emulation in 1954. More than 900,000 proposals for inventions, technical improvements and rationalisation were applied in industry, building and transport in 1954.

Socialist emulation in town and country is a powerful driving force in the development of the socialist economy and in building communist society.

Steady Growth of Labour Productivity—An Economic Law of Socialism

A steady rise in labour productivity is a most important condition for the triumph of socialism over capitalism and the building of communism. Lenin wrote:

"In the last analysis, productivity of labour is the most important, the principal thing for the victory of the new

social system. Capitalism created a productivity of labour unknown under serfdom. Capitalism can be utterly vanquished, and will be utterly vanquished, by the fact that socialism creates a new and much higher productivity of labour." (Lenin, "A Great Beginning", *Selected Works*, English edition, 1950, vol. II, Part 2, p. 231.)

As is well known, labour productivity is measured either by the quantity of products turned out by the worker in a unit of time, or by the quantity of working time expended on a unit of production. Higher labour productivity is expressed in the fact that with a decreased share of living labour in the product, and a relative increase in the share of past labour, the total quantity of labour in a unit of production diminishes. A growth of labour productivity means increased output per unit of working time.

Labour productivity increases with economy of labour, including, in this context, both living and congealed labour on a nation-wide scale. Marxism teaches that real economy consists in a saving of working time, and that this saving is identical with the development of the productive capacity of labour. Marx speaks of the universal economic law "by virtue of which costs of production continually fall while live labour continually becomes more productive". But this law operates differently under different economic conditions. Owing to the contradictions inherent in capitalism, the productivity of labour in bourgeois society grows at a slow rate and is unstable in character. "Hence for capital the law of rising productive power of labour does not have unconditional validity." (Karl Marx, *Capital*, vol. III.)

As well as eliminating private capitalist ownership, socialism also destroys the barriers inherent in capitalism which bar the way to an increase in the productivity of labour. It makes objectively necessary and possible a *steady* increase in the productivity of labour in accordance with the demands of the basic economic law of socialism.

A steady rise in the productivity of labour is an essential condition for the constant increase of socialist production and the fullest satisfaction of the constantly growing needs of the people. The uninterrupted growth of socialist production occurs, firstly, owing to a rise in the productivity of labour and, secondly, owing to an increase in the total number of workers

engaged in material production. In the period between 1940 and 1954 the rise in the productivity of labour accounted for approximately 70 per cent of the increase in industrial production, and the increase in the number of workers for approximately 30 per cent. Thus, the rise in the productivity of labour is the chief and basic source of the constant rise in socialist production.

The systematic rise in the productivity of labour, because it ensures a rapid increase in output, makes possible both an expansion of industry and an increase of consumption. A steady rise in the productivity of labour is also necessary in order to ensure the triumph of socialism in economic competition with the highly developed capitalist countries.

Socialism creates the conditions necessary for a systematic and rapid rise in the productivity of labour. Socialism eliminates the tremendous waste of labour connected with anarchy of production and economic crises of overproduction and ensures the planned, most rational use of the means of production and labour-power on the basis of constant improvement of techniques and organisation of labour. In the conditions prevailing under socialism, in contrast to capitalism, the working people are profoundly interested in the maximum economy of labour time and means of production, since industry serves the interests of the people.

> "The Soviet worker is directly interested in raising the productivity of labour, for he knows that it strengthens the economic power of the U.S.S.R. and raises the cultural level of the working people. The basis of the high productivity of social labour under socialism lies in the unity of interests of the state and the people." (G. M. Malenkov, "Report to the XIX Party Congress on the Work of the Central Committee of the C.P.S.U.", Russian edition, p. 45.)

All this testifies to the fact that *the economic law of a steady rise in the productivity of labour* operates in socialist society.

This law determines both the need for increasing the amount produced per worker and also the increase in the productivity of the whole of social labour.

It is essential for every worker in socialist industry constantly to increase in his own sector the productivity of labour by improving his use of working time and applying the most productive methods of work.

There is required, besides this, an increase in the productivity of the whole of socialist labour. Productivity of labour from the social point of view increases as a result of an economy of labour on a scale covering the whole of society, that is to say as a result of the best possible use of machinery and equipment, raw materials, fuel and other materials, an improvement in the location and utilisation of the resources of live labour, a more rational location of industry throughout the regions of the country, an improvement in the quality of output, etc. Thus, by bringing production of an article closer to sources of raw materials and areas of consumption, the expenditure on the labour of transporting the article is reduced and, consequently, an economy of the labour for society is effected. Similarly, higher quality of production, shown, for example, by an increase in the period of service of a particular article, means an economy of labour for society as a whole.

Of great importance for a rise in the productivity of social labour is an increase in the proportion of workers engaged in material production compared to a reduction in the administrative and managing apparatus, and also an increase in the proportion of workers engaged in the basic production processes compared with the personnel engaged on subsidiary and auxiliary work.

The Sources and Reserves of a Rise in the Productivity of Labour

In administering the national economy, the Communist Party and the Soviet State make use of the law of a steady rise in the productivity of labour. The national economic plans provide for a considerable annual increase in the productivity of labour, as a major condition for a total increase in output. The Communist Party and the Soviet State mobilise the working people to strive for a steady increase in the productivity of labour in all branches of the nation's economy, at every enterprise and in every production sector.

The economy of the U.S.S.R. has surpassed all the capitalist countries by the speed of its increase in labour productivity. The level of productivity of labour in the national economy of the U.S.S.R. is several times higher than the level of pre-revolutionary Russia.

During the years of the first Five-Year Plan the labour productivity in the industry of the U.S.S.R. increased 41 per cent, and in the second Five-Year Plan—82 per cent. The average annual increase in labour productivity during the first Five-Year Plan was 9 per cent and in the second Five-Year Plan—12·7 per cent. In 1940 the productivity of labour in the industry of the U.S.S.R. increased four times and—if account is taken of the reduction in the working hours per day—5·2 times compared with 1913. During the post-war period there has been a further increase in the productivity of labour. It increased in 1954 as against 1940 by 83 per cent in industry and 61 per cent in building.

During the period between 1928 and 1954 the productivity of labour in industry increased more than six times, in building and railway transport approximately four times. Productivity of labour in collective and State farms was approximately three times as high as in pre-revolutionary agriculture.

From the point of view however, of the tasks of communist construction and economic competition with the advanced capitalist countries, and also of the opportunities available, the level of the productivity of labour reached is insufficient. As regards productivity of labour in industry, the U.S.S.R. has overtaken the leading capitalist countries of Europe but lags behind the United States of America. In the practical working of industry, agriculture, transport, building, there are still serious shortcomings which have not been eliminated and which hinder the full utilisation of the advantages of the socialist system for increasing the productivity of labour, and there are still enormous unutilised reserves.

Although the plan for the first four years of the fifth Five-Year Plan (1951–4) of industrial output was overfulfilled, the plan for the productivity of labour was not completely fulfilled. Many industrial enterprises systematically fail to fulfil the plans for productivity of labour. In the post-war period the rise in the productivity of labour lagged behind the rise in real wages. During the 1951–4 period the productivity of labour in industry rose 33 per cent while real wages rose 37 per cent. Side by side with the total increase in the productivity of labour, there were certain industries which in this respect lagged far behind or even marked time. Thus, for instance, the productivity of labour for the whole of industry in 1954 increased 83 per cent compared with 1940, but the productivity of labour in the coal and timber industries was only a little above the 1940 level.

Utilisation of all available reserves will enable new, important successes to be gained in further increasing the productivity of labour.

In socialist society an increase in the productivity of labour is due primarily to the national economy being systematically provided with new and ever more perfect techniques, to an intensification of the technical equipment of labour. The perfecting of techniques and a steady rise in the productivity of labour are possible only on the basis of the law of the priority growth of the production of means of production, the development of heavy industry.

During four years of the fifth Five-Year Plan, the industry of the U.S.S.R. received annually on the average new equipment to the value of 26,000 million roubles. By the beginning of 1955 the total number of metal-cutting lathes in the national economy of the U.S.S.R. had increased 2·4 times compared with 1940. The electrical equipment of labour in large-scale industry had increased 30 per cent in 1954 compared with 1950, and was twice as great as in 1940.

However, in the practical carrying out of economic development the existing possibilities of technical progress and of raising the productivity of labour are not being sufficiently utilised.

The rate at which improvements in machinery, mechanisms and technological processes are being made lags behind the rate of development of production and the requirements of the national economy. Many types of machinery and equipment made in Soviet enterprises are inferior in quality and technical standard to the best types produced abroad.

Insufficient application is made of complex mechanisation and automation of production, there are disparities in the level of mechanisation of interlinked production processes. Where there is a high level of mechanisation of the main industrial processes, as a general rule the auxiliary processes are still very little mechanised. But the higher the level of mechanisation of the main sectors and links and the higher their productivity of labour, the more labour-power is required for the non-mechanised sectors and operations (e.g., the loading of coal). Hence the large amount of manual labour in industry and other branches of the national economy.

Thus, the proportion of workers operating by hand is as follows: in the lumbering industry—68 per cent, in coal-mining—44 per cent, in the iron and steel industry—35 per cent, in building—68 per cent. The labour of these workers is of low productivity. As a result of

this, what is gained from mechanisation and the rise in the productivity of labour in the main production processes is to a considerable extent lost owing to the use of manual labour on auxiliary work.

To ensure a further considerable rise in the productivity of labour, there must be a sharp increase in the rate at which industry is technically equipped, by means of constant improvements in machinery, equipment and technological processes, and the wide development of complex mechanisation and automation of production processes.

Constant improvement in the organisation of production is of tremendous importance for raising the productivity of labour. Improved organisation of production within the enterprise involves combating last-minute spurts, introducing even working according to schedule, the use of the uninterrupted even-flow method and the carrying through of other measures. Improvement in the organisation of industry within the framework of a given branch and on a country-wide scale requires wide use of specialisation and co-operation in production and, in connection with it, the unification and standardisation of parts and assemblages and improvements in the geographical location of industry, that is to say, primarily the utilisation of the advantages of planned, social division of labour. By using the advantages of social division of labour on both a branch and territorial scale, the labour expended on the production and transport of commodities can be reduced. Extensive specialisation of industrial enterprises with the application of mass even-flow production makes it possible to organise the production of articles on a mass scale, to introduce advanced techniques widely, to rationalise the organisation of industry and so to raise the productivity of labour to a considerable extent.

The economic importance of specialisation in production can be shown by the following data. At a specialised factory the cost of producing a 12×60 mm. bolt is ten kopecks, but in mechanised workshops making consumer goods it is 1 rouble 40 kopecks, i.e., 14 times more expensive. Further, the specialised factory greatly economises metal in the manufacture of the bolts. In the automobile industry the production of a standard tool costs four times as much as it does at a specialised tool works.

The socialist organisation of labour based on conscious discipline and comradely co-operation among the workers and

payment for labour according to quantity and quality provides great opportunities for raising the productivity of labour. Further improvement in the organisation of labour—combating stoppages, strengthening discipline, bringing more order into industry, improving the fixing of norms and payment for labour—is a great reserve for raising the productivity of labour.

A constant increase in the level of technical efficiency and industrial skill of the workers is an important condition for a steady rise in the productivity of labour. Modern techniques require highly-skilled workers capable of making and operating complicated machines.

To ensure a steady rise in the productivity of labour constant attention must be paid to training cadres, improving the quality of training to the utmost in accordance with the rapid progress of technical equipment and the technology of production.

Under socialism, the development of the creative initiative of the workers in improving technique and organising production, which finds expression in socialist emulation, is a powerful driving force in raising the productivity of labour. For a further rise in labour productivity, socialist emulation needs to be more widely developed, the initiative of the foremost industrial workers and innovators must have the fullest support and their advanced experience should be persistently popularised in order that the achievements of the foremost workers may be mastered by the workers as a whole.

BRIEF CONCLUSIONS

(1) Socialism has freed the workers from exploitation and has replaced work in subjection to the exploiters by free labour for oneself, for the whole of society. Labour in socialist society has a creative character, and is organised in a planned way on a nation-wide scale. But labour in socialist society has not yet become life's prime need for all people, and requires material incentive. Socialist society exercises strictest supervision of the measure of work and remuneration of each worker.

(2) In socialist society, labour is an obligation and a matter of honour for every able-bodied member of society. In the socialist system of national economy unemployment has been abolished, and the right of all members of society to work has been put into effect. In socialist economy the continuous

growth of production is accompanied by a steady increase in the number of employed workers and the raising of their cultural and technical level.

(3) In socialist society the economic law of distribution according to work is applied. This requires distribution of material wealth in direct accordance with the quantity and quality of work done by each worker, equal pay for equal work, irrespective of the sex, age, race or nationality of the working people. Payment for labour both in industry and agriculture is based on the requirements of this law.

(4) Socialist co-operation of labour is the co-operation of workers freed from exploitation, and linked with one another by ties of fraternal co-operation. It is based on the highest techniques, and characterised by conscientious discipline and a new kind of management combining one-man control with the broad participation and activity of the masses. Socialist emulation is a most important feature of socialist co-operation, and is a motive force in the development of the socialist economy.

(5) Socialism gives rise to a higher productivity of social labour than does capitalism. The steady growth of labour productivity is an economic law of socialism. Increasing labour productivity is a decisive condition for the continuous growth of socialist production and a rise in the welfare of the people.

CHAPTER XXXII

COMMODITY PRODUCTION, THE LAW OF VALUE, AND MONEY, IN SOCIALIST SOCIETY

The Necessity for Commodity Production in Socialist Society; its Characteristics

Commodity production is made necessary in socialist society by the existence of two basic forms of socialist production—State and collective farm. In State enterprises both means of production and output are public property. In collective farms, means of production (such as draught and productive livestock, agricultural implements, farm buildings and seeds), and the output collectively produced, are group or co-operative collective farm property. The basic and decisive means of production in agriculture (land and the M.T.S. machines) are State property. Since the output of State enterprises belongs to the Socialist State, and collective farm output belongs to the collective farms, exchange of goods through purchase and sale is the necessary form of economic connection between industry and agriculture. Here, as in all purchases and sales, the seller loses his right of ownership to the commodity, and the purchaser becomes its owner.

Lenin pointed out that "the economic *essence* of socialism is exchange of the products of large-scale ('socialised') industry for peasant products" (Lenin, Plan of the pamphlet "On the Tax in Kind", *Works*, 4th Russian edition, vol. XXXII, p. 308), and that commodity exchange is a check on the correctness of the relationship between industry and agriculture, the working class and peasantry. Lenin's statements remain true for the whole of the first phrase of communism. The Soviet State acquires food for the urban population and raw material for industry mainly from collective farms and their members through regular commodity exchange, through compulsory purchase at fixed prices and voluntary purchase by contract, at higher prices. Collective farms and their members in their turn can obtain the money they need to acquire the output of industry only by

selling their own marketable output to the State, to co-operatives, and on the collective farm market.

Thus agricultural produce and raw materials acquired from the collective farm sector by the State and the co-operatives by compulsory purchase or by contract are commodities; and so are agricultural products sold by collective farms and their members in collective farm markets. Industrial products (mostly consumer goods) produced by State enterprises and purchased by collective farms and their members, are also commodities. Inasmuch as manufactured and agricultural consumer goods are commodities, the urban population also acquires them through purchase and sale. In this case there is a transfer of commodities from State and co-operative ownership, or from the private ownership of collective farmers, to the private ownership of the workers and other employees.

In socialist economy commodity production is commodity production of a special kind, without private ownership of the means of production, without capitalists. In the main it is carried on by united socialist producers (the State, collective farms, the co-operatives). The means of production are socially owned, and the system of hired labour and the exploitation of man by man is abolished; these decisive economic conditions confine commodity production in socialist economy within definite limits. It cannot turn into capitalist production, and serves socialist society.

In socialist society commodity production is not as unlimited and universal in its scope as it is under capitalism. The area of operation of commodity production and circulation is limited mainly to consumer goods. Labour-power is not a commodity. The land and natural resources are State property and cannot be bought or sold. State enterprises cannot be bought and sold, and may be transferred from one State organisation to another only by special permission: this includes works, factories, mines, and power stations, and their fixed productive stocks (machinery, buildings, installations, etc.). They are therefore not commodities, not objects of sale or purchase.

Means of production produced in the State sector (such as machines, machine tools, metal, coal, oil, etc.) are chiefly distributed among State enterprises. The national economic plans provide for the allocation to each enterprise of definite

material funds appropriate to its production programme. The enterprises producing these funds supply them to the consuming enterprises on the basis of contracts between the two parties. When means of production are transferred to a particular enterprise the Socialist State remains their full owner. Directors of enterprises who receive means of production from the Socialist State in no way become their owners; they are simply agents of the State, invested with the function of utilising the means of production in accordance with State plans. The main agricultural machines, such as tractors and combine harvesters, are not sold to the collective farms but are concentrated in the machine and tractor stations, which are State enterprises and serve the collective farms with the assistance of these means of production.

The means of production bought by the industrial co-operatives, collective farms and collective farmers: motor vehicles, equipment for the social farming of the collective farm, cement, iron, bricks, coal, timber for building, the simplest agricultural machines and tools, are all commodities. The means of production sold to foreign States are also commodities. In these cases, purchase and sale, an exchange in the ownership of the commodities, takes place.

Thus, the means of production manufactured by State enterprises and distributed within the State sector are essentially not commodities. Since, however, consumer goods, agricultural raw materials and part of the means of production are commodities, while socialist economy represents a single whole in which all parts are interconnected, the means of production, which circulate inside the State sector, also retain the commodity form. This is reflected in the fact that the means of production are expressed in the money form of value, which is necessary for the realisation of economic accounting, stock-taking and calculation.

Use-Value and Value of a Commodity in Socialist Economy

Products which are made and realised as commodities in socialist society have a *use-value*, created by concrete labour, and a *value*, created by abstract labour. In other words, a commodity has a two-fold character in socialist society determined by the two-fold character of the labour embodied in the commodity.

The two-fold character of labour in socialist society radically differs from the two-fold character of labour in simple commodity production and in capitalist economy. The contradictions between private and social labour which are typical of commodity production based on private property do not exist in socialist society. As stated above, labour in a socialist economy is not private but directly social labour. Society plans the process of production, the distribution of labour among different branches of the national economy and among particular enterprises. In view of all this, commodity fetishism is overcome in socialist economy, and social relations between men do not assume the deceptive form of relations between things.

But in socialist economy there are differences in the directly social nature of labour in State enterprises and that in the collective farms, which arise from the differences between the two forms of socialist ownership of the means of production. In State enterprises labour is socialised on a national scale, by virtue of which the product of labour, too, belongs to the whole of society in the shape of the Socialist State. In the collective farms labour is socialised within the limits of the given agricultural artel, by virtue of which the products of labour, too, are the property of the artel. In addition, collective farmers use their labour on their personal auxiliary plot, which is of subordinate importance. Labour in the subsidiary husbandry is private labour; it is not directly social labour.

The differences in the degree to which labour is socialised in State enterprises and collective farms, and the existence of commodity connections between State industry and the collective farms, due to the two forms of social ownership, make it impossible to express and compare directly, in the form of labour-time the social labour expended in producing the output of the State and collective farm sectors. This makes necessary the indirect reduction of the social labour expended on the production of industrial and collective farm output to a common expression and measure, by utilising value and its forms. This is effected by reducing the various concrete forms of the labour of workers and collective farmers to their equivalent in abstract labour, which creates the value of a commodity.

The Socialist State in the process of planned management of the national economy takes into account both aspects of a commodity, its use-value and its value. The State requires that its

enterprises should produce particular forms of output—particular use-values. Use-value is of interest to the capitalist only as a bearer of value and surplus-value, but in socialist economy the creation of use-values and the improvement of the quality of output have an independent and very great importance, for production is carried on in the interests of the fullest possible satisfaction of the growing needs of the whole of society.

In socialist economy the value of a commodity is also of very substantial importance. The State plans production in money indices as well as in physical indices. Here the systematic reduction of the value of commodities which are produced, and the reduction of prices on this basis, plays a great part in ensuring the maximum satisfaction of the needs of society.

In socialist economy the antagonistic contradiction between use-value and value with which is linked the possibility of crises of overproduction, does not exist. At the same time a non-antagonistic contradiction between use-value and value can arise under socialism as well. Socialist economy makes it fully possible to fulfil production plans in both monetary and physical terms.

However, this possibility is not always realised. In the practical work of economic construction, the contradiction between use-value and value is revealed, for example, in cases of excessive amount of a commodity, when a commodity cannot be sold because of its low quality, because it does not correspond to the demand, and so on, or in cases where individual enterprises in a drive to turn out the more profitable sorts of articles fail to fulfil the plan as regards range and quality of production. Contradictions of this kind are revealed and resolved in the course of the planned management of economy.

In socialist economy there is a distinction between complex (skilled) and simple labour, and complex labour is expressed in terms of simple labour. The relation between complex and simple labour is taken into account in planning production, in fixing output standards, and in planning wages (when the payment for different skills, etc., is fixed).

The magnitude of the value of commodities produced and realised in socialist economy is determined by the quantity of socially-necessary labour-time expended on producing them. Socially-necessary labour-time means the average labour-time

expended by the enterprises which produce the bulk of output in the branch concerned.

The socially-necessary time is a quantity which has an objective existence. The socially-necessary labour-time expended on producing a unit of a commodity determines the social value of the commodity. The time actually expended in producing a unit of a commodity in particular enterprises is the individual labour-time which determines the amount of the individual value of a commodity in each of these enterprises. Under capitalism socially-necessary time is formed blindly, behind the backs of the commodity producers. In socialist economy the State, basing itself on objective economic conditions and on the requirements of the economic laws of socialism, plans the growth of labour productivity and the reduction of production costs, and fixes standards for the expenditure of labour and materials in each enterprise. In this planned way it uses its influence to reduce the quantity of socially-necessary time used in producing a commodity.

Under capitalism the contradiction between individual and socially-necessary labour-time is antagonistic in character. Enterprises at a more advanced technical level receive surplus profit, keep their technical improvements secret, and thus defeat, ruin and destroy their competitors. In socialist economy the contradiction between the individual time expended at particular enterprises and the socially-necessary labour-time is not antagonistic in character. "Commercial secrecy" is unknown in socialist economy: in consequence, it is possible for the technical achievements of more advanced enterprises to be quickly spread to all enterprises in the branch of the economy concerned, and thus socialist economy as a whole is improved.

Progressive standards of expenditure of labour and materials, the fixing of which takes into account the experience of more advanced enterprises, are an important means by which the Socialist State exercises a planned influence on the quantity of socially-necessary time. They have a great mobilising importance, as they encourage economic managements and the mass of working people to seek out methods by which production can be rationalised, new technology brought into use, labour productivity raised and output costs lowered. After these progressive standards have been reached by a majority of enterprises (producing the greater part of the total output), they begin to coincide with socially-necessary labour

outlays and cease to be progressive. However, the more advanced enterprises have meanwhile again reduced labour outlays on production. On the basis of the experience of the more advanced enterprises, new progressive standards of labour outlays are fixed; and, by achieving these, socially-necessary time is again reduced.

All this helps to speed up technical progress and the rapid development of the productive forces of socialist society.

The Nature of the Operation of the Law of Value in Socialist Economy

The law of value continues to operate in socialist economy to the extent that commodity production and circulation still exist. The economic structure of socialism confines the operation of the law of value within strict limits. The means of production in town and country are socialised, and the sphere of operation of commodity production and circulation is restricted. The role of the law of value is limited by these factors, by the operation of the economic laws of socialism, primarily the law of planned development of the national economy, by the planning of the national economy, and in general by all the economic activity of the Socialist State.

The law of value in socialist economy cannot be the regulator of production. As already shown, the regulator of socialist production is the law of planned, proportional development.

In building enterprises and even in establishing whole branches of production, the Socialist State is guided not by the urge to make profit but by the requirements of the basic economic law of socialism and the law of planned development of the national economy. If the law of value functioned as the regulator of production, the most profitable branches and light industrial enterprises would be the first to develop in socialist society, and heavy industrial enterprises, which were very important from the point of view of the interests of national economy but which temporarily might be unprofitable, would have to close down. However, in the U.S.S.R. enterprises which are at first unprofitable, or show only a small profit, are not closed down if they are necessary to the national economy: they are continued and subsidised, although at the same time steps are taken to make them profitable.

In contradistinction to capitalism, where the law of value operates as a blind force dominating man, the operation of the law of value in socialist economy is known, taken into account, and utilised by the State in the practice of planning the national economy.

The sphere of operation of the law of value in socialist economy covers primarily the circulation and exchange of commodities (mainly consumer goods). In this sphere the law of value retains the function of a regulator to a certain limited extent. The regulating role of the law of value in the sphere of commodity circulation is revealed first and foremost through prices.

When planning prices, the Socialist State takes into account and uses the influence of the law of value. The problem of securing a sound economic basis for the planning of prices is of great importance for the development of the national economy.

> "In the problem of prices all the main economic and, therefore, the political problems of the Soviet State intersect. Questions of establishing correct relations between the peasantry and the working class, and of achieving an interconnected and inter-dependent devolopment of agriculture and industry . . . questions of securing real wages and of strengthening the *chervonets*,[1] . . . all these come up against the problem of prices." (Resolution of the Central Committee of the C.P.S.U. (B), February 1927. *The C.P.S.U. in Resolutions and Decisions of its Congresses, Conferences and Central Committee meetings*, Pt. II, 7th Russian edition, 1953, p. 225.)

In fixing prices, the State takes as its starting point that it is necessary for enterprises to make a certain amount of profit, and it takes into account the quantity of particular commodities and their importance in the economy; and it uses prices to stimulate the production of particular goods and to regulate the demand for them. The Soviet State consistently follows a policy of reducing prices of consumer goods in the interests of improving the welfare of the people.

In fixing the prices of consumer goods, the State takes into account both their value expressed in money terms and the supply and demand of these commodities. If the supply-and-

[1] The stable 10-rouble note, introduced by the currency reform of 1922–4.—*Editor, English edition.*

demand situation were ignored, demand would fall sharply for goods with especially high prices, and would be artificially raised for goods with very low prices.

The regulating function of the law of value appears most fully on the collective farm market, where prices are formed on the basis of supply and demand; price movements, moreover, influence the size and structure of commodity turnover on the collective farm market. But the Socialist State has a tremendous economic influence on this market, since the bulk of all commodities are sold in the State and co-operative trading system at fixed planned prices.

The regulating action of the law of value in the sphere of commodity circulation is kept within strict limits. In State and co-operative trade there is no "free play of prices". The Socialist State fixes the prices of commodities with certain deviations from the value of the commodities. In doing so it proceeds primarily from the fact that the basic economic law of socialism makes it necessary to ensure a constant expansion of industry on the basis of the high techniques for the purpose of satisfying the growing requirements of the whole of society. The State uses the price mechanism to fix proportions in the distribution of means among the branches that follow from the requirements of planned development of the national economy. The State, for example, by means of an appropriate price policy uses part of the incomes created by some branches to produce a rapid rise of other branches.

The operation of the law of value is not limited to the sphere of commodity circulation. The law of value also influences socialist production.

Through prices, the law of value influences collective farming output. The level of prices and the relationship between them, in accordance with which the collective farms and collective farmers sell their output, exert a substantial influence in materially stimulating the production of particular agricultural products. It is wrong, for example, to fix the same State purchase price for a ton of cotton and a ton of grain, failing to take into account the fact that the value of cotton is considerably greater than the value of grain. On the other hand, it is wrong to fix grain prices too low, as this would undermine the material interest of the collective farm and its members in producing grain, and would harm the development of grain-farming.

Thus, for example, economically sound State purchase prices were fixed for cotton and other industrial crops, and this promoted an increase in their production. On the other hand, low State prices over a certain period of time for compulsory purchases and purchases by contract of potatoes, vegetables, milk, meat and grain, hindered their production. The State prices paid for these products were considerably increased in 1953–5, and this was a very important incentive to their increased production.

The influence of the law of value on the light and food industries is connected with the fact that the consumer goods which these branches produce are commodities. The value of manufactured consumer goods includes the value of the raw material produced as a commodity by the collective farms. Part of the newly-created value of consumer goods is used to replace outlays on money wages, and the remainder forms the income of the enterprise, received in money form. In addition, in the process of producing manufactured consumer goods, means of labour, such as lathes, machines and factory buildings, are worn out. These are not actually commodities; but since all the other elements entering into the value of manufactured consumer goods are expressed in a money form of value, the means of labour, too, must be expressed and calculated in money.

Although the means of production manufactured in the State sector and circulating within it are, essentially, not commodities, nevertheless in so far as they retain the commodity form they also possess the value form. In this sense one speaks of the value of the means of production, their cost of production, price, etc. Here it should be borne in mind that these categories conceal the relations of production of the State socialist sector which, in essence, do not have a commodity character.

> "The fact of the matter is that in our socialist conditions economic development proceeds not by way of upheavals, but by way of gradual changes, the old not simply being abolished out of hand, but changing its nature in adaption to the new, and retaining only its form: while the new does not simply destroy the old, but infiltrates into it, changes its nature and its functions, without smashing its form, but utilising it for the development of the new." (Stalin, *Economic Problems of Socialism in the U.S.S.R.*, p. 59.)

In socialist society the value form of the means of production is of great economic importance for the national economy.

The law of value influences the production of means of production through consumer goods, which are needed to replace the expenditure of labour-power. Consumer goods are commodities, and workers can get them only by buying them with money from their wages. Hence the money form of value has also to be used in the production of means of production, to keep account of all the other elements which, combined with wages, are included in the industrial output costs.

The influence of the law of value on the production of the means of production and consumer commodities is manifested through the system of economic accounting, which is based on payment in money form for expenditure of labour, and which stimulates an increase in the productivity of labour, and lower costs and greater profitability of production. Knowledge of the operation of the law of value and ability to use it assists economic workers to manage production rationally, to improve methods of work consistently, and to find and make use of hidden reserves to increase output.

The Socialist State uses the law of value in carrying out control, through the financial and credit system, over industry and the distribution of the social product.

The use of the law of value is of great importance in operating the economic law of distribution according to work. The money form of wages is the means of control over the measure of labour and over the measure of reward in socialist society.

The restriction of the law of value, control over it, and its planned use are a tremendous advantage which socialism has over capitalism. It is thanks to this restriction that the operation of the law of value in the U.S.S.R. is not accompanied by destructive consequences in the shape of crises, whereas under capitalism the law of value, despite the low rates of development of industry in the capitalist countries, leads to periodic crises of overproduction, to unemployment and to the destruction of part of the productive forces.

Money and its Functions in Socialist Economy

The necessity of money in socialist society is determined by the existence of commodity production and the law of value.

"Before the socialist revolution the Socialists wrote that it is impossible to abolish money at once. . . . A great many technical, and what is much more difficult and more important, organisational gains are necessary in order to abolish money." "In order to abolish money, it is necessary to arrange the organisation of the distribution of products for hundreds of millions of people, an affair of many years." (Lenin, *The Deception of the People by the Slogans of Equality and Freedom.* Little Lenin Library, vol. XIX, pp. 26, 35–6.)

Money fundamentally changes its nature in being applied to the needs of the development of socialist economy. Under capitalism, money is turned into capital and is a means of appropriating the unpaid labour of other people. In socialist economy, on the other hand, money is a weapon of economic construction in the interests of the mass of the people in accordance with the requirements of the basic economic law of socialism. It is an expression of the socialist relations of production.

Under socialism money fulfils the role of universal equivalent in the national economy as a whole. The money form is used not only in the circulation of consumer goods and those means of production that are commodities, but also in the economic turnover of those means of production that are not essentially commodities but which retain the commodity form. The unity of socialist national economy, the indissoluble connection and relationship between the production of means of production and the production of articles of consumption, between State industry and collective farm production, requires a single measure to express and measure the social labour expended on the production of what is produced. In socialist economy, where two forms of socialist ownership exist, only money can be such a universal measure of social labour.

Whereas under capitalism money serves as an instrument for the spontaneous calculation of social labour, a calculation that is made behind the back of the commodity producers through market fluctuations, in socialist economy money is the economic instrument of the planned management of the economy, and serves in the production and distribution of the social product.

Consequently, *money* in socialist society is the universal equivalent, the economic instrument for planning the national

economy, the means used for universal accounting and control over the production and distribution of the social product, over the measure of labour and the measure of remuneration.

The new nature of money under socialism is expressed in the fact that while the old form is retained, there is a change in the social content and the purpose of the functions of money compared with the functions of money under capitalism.

Money has primarily the function of a *measure of the value* of commodities, i.e., it measures the social labour embodied in them. In the conditions of socialism, when two basic forms of socialist production exist, only a money form can be used to express the results of the economic activity of an enterprise, to compare the results of the work of enterprises and of branches producing different goods, and to measure the volume of output of branches of the economy and of the national economy as a whole. Since the means of production, although they are not commodities, retain the form of commodity and value, money in its function as a measure of value serves also as a means for keeping account of the social labour expended on means of production.

Of course only a monetary commodity which itself has value can have the function of a measure of value—such as gold. In the Soviet Union and the other countries of the socialist camp gold plays the part of universal equivalent. Soviet currency has a gold content, being tokens of gold.

In socialist society money can only fulfil the functions of a measure of the value of commodities by virtue of its connection with gold. Lenin connected the abolition of gold money with the victory of socialism on a world scale. He said: "In the R.S.F.S.R., for the time being it is necessary to retain gold, to sell it as dearly as possible and to buy goods with it as cheaply as possible." (Lenin, "On the Significance of Gold at Present and after the Complete Victory of Socialism", *Works*, Russian edition, vol. XXXIII, pp. 89–90.) Soviet money retains the historically derived connection with gold.

On the basis that gold is a universal equivalent, the Soviet State fixed a gold content for the rouble in carrying out the currency reform of 1922–4. The gold content of the rouble was later fixed indirectly, by establishing an exchange-rate for the Soviet rouble with first the franc and later the dollar. In 1950, in connection with the increased purchasing power of the rouble and the reduced

purchasing power of the dollar and other capitalist currencies, the Soviet State fixed the gold content of the rouble directly, at 0·222168 grams of gold. The exchange-rate of the rouble with other currencies was raised to correspond with its gold content.

The Soviet State produces and accumulates gold as the universal money used for trading both with the countries of the capitalist world market and with the countries of the world market of the socialist camp.

The Soviet State uses money, in its function as a measure of value, as a means for planned leadership, accounting and control over the course of production and the distribution of the social product, as an instrument for carrying out economic accounting. Thus, for example, by comparing the planned and actual cost of production, the cause can be found why the actual cost of production is in excess of the planned cost and the necessary measures devised to reduce the cost of production and increase the profitability of the enterprise.

In its function as a measure of value money is used by the Socialist State in the planning of prices. In socialist economy *price* is the money expression of the value of commodities, and is established in a planned way.

In socialist economy money is also a *pricing-unit*. In the Soviet Union this unit is the rouble.

In socialist economy money has the function of *a means of circulation* of commodities. Money acts as a means of circulation in the purchase and sale of commodities. The function of money as a means of circulation is used to extend commodity turnover.

Money in socialist economy has the function of a *means of payment*. Money acts as a means of payment when wages are paid out to workers and employees, when loans are borrowed and repaid by socialist enterprises, when taxes are paid, etc. The Socialist State uses money in its function as a means of payment to supervise the work of socialist enterprises. For example, money is advanced to enterprises by the bank to the extent that they fulfil their production plan. The bank requires loans to be repaid promptly, and this provides an incentive to plan fulfilment by the enterprise, which will not be able to accumulate sufficient money to repay the loan without fulfilling the plan.

In socialist economy money has the function of a means of

socialist accumulation and saving. State enterprises and collective farms keep their money in banks. The money incomes of enterprises and organisations, and their money which is temporarily not in use, are used for the needs of socialist accumulation, to extend production, to form reserves, and to meet the material and cultural needs of the population. As a result of the improvement in the well-being of the working people their money savings are increasing. These are kept in savings banks.

In socialist society gold performs the functions of *world currency.* The gold reserve is mainly a State reserve fund of world currency. In foreign trade, gold as an instrument for buying and selling is a means of international accounting by the State.

The stability of the Soviet currency is secured not merely by the gold fund, but primarily by the huge quantity of commodities in State hands which are released into the trade network at stable planned prices. In no capitalist country does money have such a reliable backing as in the Soviet Union.

BRIEF CONCLUSIONS

(1) Commodity production in socialist society is made necessary by the existence of two basic forms of socialist production: State and collective farm. Commodity production and commodity circulation are limited mainly to consumer goods. Commodity production in socialist society is commodity production of a special kind, without private ownership of the means of production, and without capitalists. It serves socialist society.

(2) A commodity in socialist economy has use-value created by concrete labour, and value created by abstract labour. The contradiction between private and social labour does not exist in socialist society. In socialist economy both the creation of use-values and the improvement of the quality of output and also systematic reductions in the value of commodities on the basis of the planned reduction of the socially-necessary time spent on their production are of the utmost importance.

(3) The sphere of operation of the law of value in socialist economy is limited. The law of value is not the regulator of production, but influences production and has a regulating influence on commodity circulation. The law of value is used

in the process of the planned management of the national economy. The operation of the law of value is taken into account in the planning of prices.

(4) Money in socialist economy is a universal equivalent, an economic instrument for planning the economy, a means for controlling and keeping account of the production and distribution of the social product, the measure of labour and consumption. Money has the function of a measure of value, a means of circulation, a means of payment, and a means of socialist accumulation and saving, a world currency. Soviet money is backed not only by the gold reserve but primarily by the mass of commodities which is concentrated in State hands and sold at State planned prices.

CHAPTER XXXIII

WAGES IN SOCIALIST ECONOMY

Wages and the Economic Law of Distribution According to Work

Lenin taught that socialism presupposes "social labour accompanied by the strictest accounting, control and supervision on the part of the organised vanguard, the most advanced section of the toilers. Moreover, it implies that standards of labour and the amount of remuneration for labour must be determined." (Lenin, "Report on Subbotniks Delivered at the Moscow City Conference of the R.C.P.", *Selected Works*, 12-volume edition, vol. VIII, p. 239.) The workers in State enterprises receive this remuneration for labour in the form of wages.

Wages in socialist economy are by their very nature quite different from wages under capitalism. Since labour-power has ceased to be a commodity in socialist society, wages are no longer the price of labour-power. They express, not the relation between the exploiter and the exploited, but the relation between society as a whole, in the shape of the Socialist State, and the individual worker who is working for himself and for his society.

Since under capitalism wages are the price of labour-power, they usually fluctuate, unlike the price of other commodities, below value. They do not always enable the workers to satisfy even the *minimum* of their requirements. With the abolition of the system of hired labour, the law of value of labour-power has completely lost its validity as the regulator of wages. The basic economic law of socialism necessitates the *maximum* satisfaction of the constantly growing material and cultural requirements of the whole of society. The emancipation of wages from the limitations of capitalism enables them to be extended "to that volume of consumption, which is permitted on the one hand, by the existing productivity of society . . . and on the other hand, required by the full development of his (the worker's) individuality". (Marx, *Capital*, vol. III, Kerr edition, p. 1,021.) Real wages constantly rise in accord with the growth and perfecting of socialist production. The requirements

of the basic economic law of socialism with regard to stimulating production and raising the well-being of the working people are given effect through the law of distribution according to work. In accordance with this law, each worker's share in the social product is determined by the quantity and quality of his work.

Wages are one of the most important economic instruments through which each worker in socialist society is given a personal material interest in the results of his work: he who works more and better also receives more. Consequently, wages are a powerful factor in the growth of labour productivity, enabling the personal material interests of the worker to be correctly combined with State (national) interests.

The *money form* of wages is necessitated by the existence in socialist economy of commodity production and the law of value. As has already been stated, the consumer goods, which are necessary to compensate for the expenditure of labour-power are produced and disposed of in socialist economy as commodities, subject to the operation of the law of value. The money form of wages allows of flexible and differential assessment of the worker's share in the social product, depending on the results of his labour.

Thus, *wages in socialist economy* are the monetary expression of the worker's share in that portion of the social product which is paid out by the State to workers by hand or brain in accordance with the quantity and quality of each worker's labour.

The money wages of each worker by hand or brain are his *individual* wages. The source of the individual wages of the workers engaged in socialist production is the product created for themselves, and distributed according to work. However, the standard of life of the workers by hand or brain in socialist society is not determined by individual money wages alone. In addition to individual wages, large funds are allotted by the State and social organisations for the social and cultural needs of the working people, out of the product created by labour for society.

In conformity with the requirements of the basic economic law of socialism and the law of distribution according to work, the Socialist State plans the wage fund and the wage level for different categories of workers for each period of development.

The *wage fund* is the entire sum of money resources allotted in a planned way by the State for distribution according to work done over a given period of time (a year, a month, etc.). This applies to the national economy as a whole, and to individual branches and enterprises.

In accordance with the requirements of the economic law of distribution according to work done, the policy of the Socialist State in the field of wages is based on the principle of all-round differentiation in the payment of labour. The practice of equalising wages, which ignores the differences between skilled and unskilled labour and between arduous and light work, is incompatible with the economic law of distribution according to the quantity and quality of labour. It undermines the individual material incentive of the workers in relating to the results of their work and their striving to improve their qualifications. Since skilled work is work of a higher quality, it necessitates the training of the worker and is more productive than unskilled work. Consequently it is also paid more than unskilled work. Such a wage system encourages workers to improve their skill. Under socialism, given equal skills, heavier work is paid more than lighter work. Under the capitalist system on the contrary, workers employed in particularly arduous manual labour are, as a rule, paid considerably less than other workers. Thus miners, who receive low wages in capitalist countries, are highly paid in socialist society where, moreover, arduous labour is constantly, and to an increasing extent, being lightened by the use of machinery.

In accordance with the economic necessity of giving the greatest encouragement to work in the key branches of the national economy, higher wages are fixed for workers in such branches of heavy industry as metallurgy, coal, oil, engineering, etc. Other things being equal, the workers, engineering and technical personnel are also more highly paid in enterprises and construction sites situated in economic regions which are of special importance to the economic life of the country, or in remote and sparsely inhabited districts. In this way, wages become one of the economic instruments for effecting planned distribution and re-distribution of skilled labour among enterprises and branches of social production, in keeping with the requirements of the law of planned development of the national economy.

The wage policy of the Socialist State involves a struggle against petty-bourgeois equalising tendencies and backward, anti-State and anti-mechanisation influences.

Such economic practices as failure to effect the necessary wage differentiation contradict the economic law of distribution according to work. Without such differentials skilled workers fail to obtain wage advantages over unskilled workers. The same applies to persons engaged in arduous work compared with workers engaged in lighter work or in normal working conditions. The absence of the necessary differentials leads to equalisation and hinders the introduction of new techniques and advanced methods of organising production.

Violation of the correct correlation of wages as between workers, middle rank technical personnel and engineering cadres causes the wages of engineering and technical personnel, in some enterprises and even in whole branches of the economy, to be lower than those of skilled workers. Economically unjustified wage increases in individual branches and in economic regions which are not of the first importance in the national economy hinder wage incentive measures in those branches and districts which occupy key positions in the economy of the country.

The *trade unions* play an important role in applying wage policy. They actively participate in the work of the State institutions in the working out of measures involving labour organisation and wages, directly administer social insurance, support the experience and initiative of innovators in production, promote the development of socialist emulation and higher labour productivity; improve cultural and welfare services and working conditions. With the active participation of the trade unions, a collective agreement between the management and the workers of each enterprise is concluded every year. The *collective agreement* regulates all questions affecting work, wages and living conditions. It binds both parties to take the necessary measures to secure the correct remuneration of labour and the growth of its productivity, and also the satisfaction of the growing cultural and living requirements of the workers in socialist enterprises.

Forms of Wages. The Tariff System

The various systems of wages in socialist economy represent the concrete ways in which the requirements of the economic law of distribution according to work are satisfied.

The *piece-rate system* is the main wage system in State socialist enterprises. In 1954 more than three-quarters of all industrial workers were on piece-rates.

In socialist economy piece-rates provide the worker with the maximum interest in the results of his work. They differ fundamentally from capitalist piece-rates which are based on unbearable intensification of labour and lead to higher rates of surplus-value; while increasing the intensity of work, the worker's wages are lowered.

In socialist society, the size of each worker's earnings depends directly on the quantity and quality of his work. By securing increased earnings as output per unit of time increases, piece-rates encourage higher labour productivity. They stimulate full and rational utilisation of machinery, equipment, raw materials and working time, the introduction of technical improvements and the best organisation of work and production. Piece-rates also assist socialist emulation, since high labour productivity brings high earnings.

The *direct piece-rate* system is the one most extensively used. Under this system wages depend on the worker's output in a given period, measured in number of articles, weight, length, etc. Each unit of output is paid for at the same rate for the given type of work. The worker's wage increases in direct proportion to the increased quantity of his output of goods of the prescribed quality.

Under the *progressive piece-rate* system of wages, the worker is paid the same fixed rate for the fulfilment of the standard quota, but at other, higher and progressively increasing rates for output above the quota. The greatest progression in rates is laid down for the key trades, for workers employed in underground work, hot workshops and other arduous conditions. The effectiveness of the progressive piece-rate system is lowered if there are so many pay scales that they hinder calculation and assessment of the wage, and the establishment of a direct and visible link between wages and labour productivity. Its effectiveness is also lowered if there are unjustifiably sharp differences in the rates for output above the quota in different branches of the economy.

Under the *piece-rate bonus system*, the direct piece-rate is supplemented by bonuses for achieving certain indices: economy of fuel and power, lower production costs, reduction of spoilage, output of higher grade products, etc. In some enterprises bonuses for certain qualitative indices are also applied in conjunction with the progressive piece-rate system.

In circumstances where production conditions make it impossible to apply individual piece-rates (for example, simultaneous servicing of large machines or aggregates by several workers), team or *group piece-rates* are applied. The individual members of the team receive a share of the collective earnings after allowing for the time worked and the skill of each worker.

Stressing the need for consistent application of the principle of material encouragement of efficient workers, the 18th Conference of the C.P.S.U. (B) decreed that "the bad practice of equalising in the sphere of wages must be finally eliminated, and the piece and bonus systems must become, in still larger measure, the most important means of raising labour productivity, and hence also, of the development of our entire national economy". (*The C.P.S.U. in Resolutions and Decisions of its Congresses, Conferences and Central Committee meetings*, Pt. II, 7th Russian edition, p. 975.)

The *time-rate system* is used in those occupations where piece-rates can either not be applied, or where they are economically unsuitable because of the nature of the job (time-keepers, safety personnel, work on manufacture of unique apparatus, control and inspection work, etc.). Time wages take the form of both plain-time and time-plus-bonus payment.

The *plain-time* system is built up on differential principles, depending on the duration of working time and skill of the worker. In order to increase the material incentive of the workers employed on time-rates, the *time-plus-bonus* system is applied. Under this system the worker receives a bonus, in addition to the scale paid for the unit of time worked, for the achievement of various quantitative or qualitative indices: reduction of time spent on repair of equipment, economy of raw material, fuel or power, operation of mechanisms without breakdowns, reduction of spoilage, etc.

The time-plus-bonus system is widely applied to managerial, engineering and technical staff. The basic wage of this category of worker (the directors of enterprises, chief engineers, departmental managers, foremen, etc.) is his monthly salary, which varies with the size of the enterprise (department, shift, etc.), its national economic importance, his length of experience, etc. In addition to the basic salary, managerial, engineering and technical staff receive a definite percentage bonus-addition for fulfilment and over-fulfilment of the production plan by the enterprise, in terms of marketed output, provided that the planned output of gross output is fulfilled, and the prescribed assortment and planned production costs are observed.

The wages of teachers, medical workers and employees in State institutions also differ in accordance with the character of the work, educational standard, period of service and various other indices.

Comprehensive differentiation of wages, taking into account the worker's skill, the productivity of labour and the quality of his output, is effected by means of the rating of work and a definite grading system.

Rating of work is the establishment of the standard time required to carry out a given job (*time standard*), or the size of output per unit of time (*output standard*). It is impossible to plan the economy without technical standards. Correct rate-fixing is one of the most important factors in managing the production process, improving labour organisation and raising its productivity, getting rid of equalising tendencies and developing socialist emulation. Technical standards are an important regulating factor in organising the broad mass of the working people around the advanced elements in production and bringing the backward ones up to the level of the more advanced.

Socialist methods of management require aiming at *progressive and technically justified output standards*, which are fixed at a level falling between those which have already been achieved by the majority of workers, and those which have been attained by the best workers and innovators and the most advanced enterprises. Capitalist output standards are a method of unrestrained intensification of work which destroys the health of the workers and shortens their lives. In socialist enterprises, on the contrary, they are laid down in such a way that while progressive, they are at the same time fully within the reach of the whole mass of workers.

The introduction of progressive output standards is being achieved in the course of a decisive struggle against conservative elements who cling to out-dated and lowered standards, thereby retarding labour productivity and the successful fulfilment of plans. The so-called statistical-average standards, in particular, are examples of such backward standards, since they do not allow for progress in technique and production organisation. They are based on the worker with poor mastery of technique, and legitimise unproductive losses of working time. Continuous technical improvement requires periodic upward review of

output standards. Correct rating of work must reflect the growth in technical equipment and the rise in the cultural and technical level of the workers. The interests of socialist society and of the mass of the workers demand the introduction of progressive and technically justified standards which fully correspond to the modern level of production technique and act as a strong factor in raising labour productivity.

The evaluation of each type of work, depending on the skill of the worker, the nature of the work, and the conditions and peculiarities of the particular branch of production, is reached on the basis of the *grading system*. Wage levels in different branches of the economy and for different catagories of workers are determined on the basis of this system.

The main elements of the grading system are schedules of grades, skill-grading handbooks and the scale of basic rates.

Wage differences in accordance with the workers' skill are arrived at on the basis of the *schedules of grades*. Workers are divided, according to their skill, into several grades. The unskilled worker is placed in the first grade and his payment is taken as the unit of assessment. The higher the skill of the worker, the higher is the grade into which he is placed, and correspondingly the higher is his payment.

The description of the various jobs carried out in a particular branch of industry is laid down in the *skill grading handbooks*. These serve as the basis for assessing the skill of the worker, and for placing him in one of the grades in the schedule of grades.

The *scale of basic rates* prescribes the size of payment per unit of time appropriate to the different grades. The scale of basic rates enables the Socialist State to fix differential wages which take into account the national economic importance of each branch of industry, the degree of mechanisation of labour, the particular features of different economic areas, etc. The July, 1955, Plenum of the Central Committee of the C.P.S.U. revealed grave defects in the organisation of wages, especially in the rating of work and the application of the schedule system. Thus, in a number of enterprises, reduced statistical average rates were in force; schedules and scales were out of date and lagged behind the increased level of wages; various additions to the scales and basic rates were impermissibly widespread; differences between the pay of workers placed in the lower and higher categories were insignificant. Multiplicity of wage systems complicates wage accounting, makes the wage system hard for the workers to understand, and gives rise to lack of co-ordination in the wages of workers engaged in one and the same kind of work.

All this reduces the incentive to the workers to improve their skill, produces equalisation of wages and hinders the growth of labour productivity.

A correct structure of the grading system enables wages to be organised in such a way that they will stimulate the growth of the productivity of labour and the workers' incentives to improve their qualifications.

The July, 1955, Plenum of the Central Committee of the C.P.S.U., which exposed defects in the organisation of wages, decided that: "The Leninist principle of giving the workers a material interest in the results of their work must be consistently realised in the organisation of wages. Technically well-founded rates of work must be generally applied in the enterprises, rates which correspond to up-to-date levels of technical development and production organisation. The organisation of labour in the enterprises must be improved so as to provide all workers with the conditions needed to achieve a high degree of productivity of labour." (*Decisions of the July, 1955, Plenum of the C.C. of the C.P.S.U.*, p. 17.)

The Steady Rise of Real Wages in the Socialist System

In accordance with the basic economic law of socialism, the socialist system provides a *steady rise of real wages.*

The continuous growth of socialist production based on the highest technique and increased labour productivity is the most important economic factor in the rise of real wages.

To enable socialist society to thrive and develop, higher labour productivity must constantly *run ahead* of the growth of wages. Only under these conditions can society obtain the necessary resources for expanding production and reserves, and for ever fuller satisfaction of the growing needs of the working people. The continuous growth of labour productivity and social production is a secure foundation for the further rise of real wages; the rise of real wages increases the purchasing power of the working people, and this in its turn provides social production with a constant impelling force.

The continuous growth of socialist production leads to a systematic increase in the number of manual and clerical workers. In the U.S.S.R. their numbers increased from 10·8

millions at the end of 1928 to nearly 47 millions at the end of 1954—a more than four-fold increase, accompanied by a considerable increase in real wages. Under capitalism the need to maintain a reserve army of unemployed lays a heavy burden on working-class families and lowers the real wages of the working class as a whole. In socialist society the working class and society as a whole are freed from this need by the absence of unemployment. Increasing production makes work available to all able-bodied members of the family, and this considerably increases its total income.

The working people of socialist society are freed from those enormous losses in wages borne by the working class of capitalist countries as a result of various wage discriminations according to sex, age, nationality and race.

In socialist society the principle of equal pay for equal work without distinction of sex, age, nationality or race has been achieved for the first time. Child labour in socialist economy is prohibited. The genuine equality of women is guaranteed by equal pay for equal work, provision of leave at full pay during pregnancy, a wide network of maternity hospitals, crêches and kindergartens, and payment of State grants to mothers of large families and to mothers without breadwinners. Any direct or indirect wage discrimination whatsoever because of the racial or national origin of the worker is punishable as a serious crime.

The steady rise of wages in socialist society results also from the growth in the cultural and technical level of the workers and the raising of their skill. With the development of industrial techniques in the capitalist system, considerable strata of skilled workers are squeezed out by machines and transferred to lower paid, unskilled work. Moreover, workers who have been disabled by the capitalist intensification of labour are forced out of industry and into the ranks of the unemployed, to be replaced by healthier and stronger workers. In socialist society the growth of production is inseparably connected with rapid technical progress. The old occupations involving heavy manual labour are being replaced by new, more skilled and more highly paid ones, based on the latest techniques. In order to encourage steady and conscientious work in the same sphere of industry, the Socialist State pays out large sums every year in the form of long-service awards to various categories of

workers in different branches of the national economy, cultural workers and State employees.

The consistent policy of the Socialist State of reducing prices for consumer goods and raising the purchasing power of money is a major factor in the steady growth of real wages.

The reduction of retail prices for the chief consumer goods, between 1947 and 1954, lowered the general level of these prices 2·3-fold, and gave the population a gain of several hundred milliards of roubles. In the same period the rise in prices in the capitalist countries raised the cost-of-living index, according to official data, 21 per cent in the U.S.A. and 40 per cent in Great Britain.

With the nationalisation of the land, the enormous tribute which under capitalism the owners of urban land extract from society, in the form of land rent, has disappeared. In capitalist countries the cost of rent, heating and lighting absorb about one-quarter of earnings, in the budget of a worker's family. Under socialism, thanks to the social ownership of the land, the urban housing fund and municipal amenities, rents and other municipal services occupy a very small place in the budgets of workers' families. In the U.S.S.R. they account for an average of little more than 4 per cent, and are thus a real factor in raising the level of real wages.

In the Soviet Union the extensive scale on which housing is being built systematically improves the living conditions of the working people. Between 1946 and 1954 alone about 2,370 million square feet of housing space[1] were built and restored by State enterprises, institutions and local Soviets, and also by the population of towns and workers' settlements with the assistance of State credits. In addition, about 4½ million houses were built and restored in rural localities. In order to satisfy the growing demands of the population for housing the work of house-building must be further developed on an extensive scale and the quality of housing improved.

The manual and clerical workers of socialist society are freed from the heavy burden which the working masses of the capitalist countries are compelled to bear as a result of the tax policy of bourgeois States. In the capitalist countries, high taxes sharply reduce real wages. In the U.S.S.R. the workers expend

[1] This figure includes only dwelling-space proper, i.e., it does not include kitchens, sculleries, bathrooms, lavatories, halls and passages.—*Editor, English edition.*

only an insignificant part of their wages on taxes. Moreover, taxes are used to meet the needs of the national economy and on social and cultural services.

The ever-increasing resources expended by the Socialist State on social and cultural measures in the interests of the whole people are a very important supplement to the individual money wage.

In socialist society *social insurance* of manual and clerical workers is compulsory, and is provided at the expense of the State. In the capitalist world on the other hand, social insurance is to be found in only a few countries, and in these the workers are obliged to pay a considerable portion of the insurance contributions from their own wages. Expenditure by the Soviet State on social insurance were 8·9 milliard roubles in the first Five Year Plan, 32·1 milliards in the second, 79·1 milliards in the fourth, and more than 92 milliard roubles in the first four years of the fifth Five-Year Plan.

In the U.S.S.R. the manual and clerical workers receive, at the expense of the State, social security pensions, free medical assistance, free or reduced-cost treatment in sanatoria and holidays in rest homes and children's institutions, free education and vocational training, and student stipends. Every worker and employee has an annual holiday on full pay of not less than two weeks, while the workers in a number of trades have longer periods.

Between 1940 and 1954 expenditure out of the State Budget of the U.S.S.R. on social and cultural measures increased nearly three and a half times. State allocations for education increased from 22·5 milliard roubles to 65·6 milliards, for health services (including expenditure for this purpose out of social insurance funds) from 11·2 milliard roubles to 33·5 milliards, and for social welfare from 3·1 milliard roubles to 24·2 milliards. In addition, vast resources are expended on benefits to mothers of large families, and to mothers without breadwinners; in 1954, for example, such benefits amounted to 4·7 milliard roubles. In 1954 the population received from the State Budget, as a result of increased State expenditures in social and cultural services and other expenditure for the purpose of raising the material welfare of the working people, 146 milliard roubles.

In this way, many of the material and cultural requirements of manual and clerical workers are met out of expenditure by the State and social organisations on social and cultural services.

This is an important factor in the steady rise of real wages. As a result, the real wages of manual and clerical workers in the U.S.S.R. are approximately one-third larger than the sum which they receive annually as individual money wages.

The Socialist State holds all the levers affecting the material welfare of the working people and applies a policy of systematically raising real wages. As early as 1930, the real wages of the workers, taking into account social insurance and deductions from the net incomes (profits) of enterprises into the fund for improving living conditions, had risen to 167 per cent of 1913. In 1954 the average monthly wage of all manual and clerical workers in the U.S.S.R. was 206 per cent of the 1940 level. The retail price level in State, co-operative and collective farm trade, together with charges for rents and all forms of services, amounted in 1954 to 118 per cent of the 1940 level. Consequently the real wages of all manual and clerical workers and employees in the U.S.S.R. had increased between 1940 and 1954 by 74 per cent. When account is taken of the growth of State expenditure on cultural, social and living amenities, the real wages of manual and clerical workers had more than doubled in the same period. The real wages of manual and clerical workers in the U.S.S.R. in 1954 were approximately six times as high as before the Revolution.

This growth in the real wages of the workers of the U.S.S.R. compared with pre-revolutionary times has been brought about by a number of factors. Money wages have risen a great deal more than prices or the cost of services. The share of workers' expenditure constituted by rent and payment for municipal services, which before the Revolution amounted to a third of wages is now only about one-sixth of what it was. Besides their individual wages the workers of the U.S.S.R. receive considerable sums from the State in the form of social insurance benefits, various forms of aid, privileges, pensions, grants, holiday pay, free education, medical attention, etc. Before the Revolution the workers received hardly anything beyond their individual wages, and as a rule had no paid holidays. In calculating real wages it is to be taken into account that unemployment has been completely abolished in the U.S.S.R., so that all able-bodied members of the workers' families can find work, which has led to a sharp reduction in the number of non-working members in these families. Finally, it must be kept in mind that the working day in the U.S.S.R. is considerably shorter than it was in pre-revolutionary Russia and so a worker receives a higher pay for each hour of labour.

The steady rise in real wages brings improved nutrition of the working people in socialist society, increased consumption of manufactured goods by them, and an increase in their *savings*. Deposits of the working people in savings banks were 6·7 times more in 1954 than in 1940. In the conditions of socialist society, where the right to work, rest, material security in old age, or in the event of sickness and loss of earning capacity, is guaranteed, increased savings are à direct indication of the rise in living standards.

"Our revolution," said Stalin, "is the only one which not only smashed the fetters of capitalism and brought the people freedom, but also succeeded in creating the material conditions of a prosperous life for the people. Therein lies the strength and invincibility of our revolution." (Stalin, "Speech at the First All-Union Conference of Stakhanovites", *Problems of Leninism*, 1953, English edition, p. 670.

BRIEF CONCLUSIONS

(1) In socialist society wages are the monetary expression of the worker's share of that portion of the social product which is paid out by the State in accordance with the quantity and quality of each worker's labour. Arising from the requirements of the basic economic law of socialism and the law of distribution according to work, the Socialist State plans the wages of the various categories of workers in each particular period. It does so in such a way that alongside the growth of the national economy and increased labour productivity, the wage level is systematically increased.

(2) Wages, correctly organised, are a powerful motive force of socialist production. They encourage workers to improve their skill, continuously to improve the technique and organisation of production, and to raise the productivity of social labour.

Piece-rates in socialist society most efficiently combine the personal material interests of the worker with national economic interests. The following systems of piece-rates are used in socialist society: simple piece-rates, progressive piece-rates, and piece-rates-plus-bonuses. Time-rates depend on the length of time worked and the skill of the worker.

(3) The purpose of the grading system in socialist economy, is to organise wages in such a way that they stimulate the

growth of the productivity of labour, especially in the key links in the process of production and encourage workers to improve their skill. Progressive and technically justified output standards correspond to socialist principles of management. The wage policy of the Socialist State is being carried out in the course of a struggle against petty-bourgeois equalising tendencies. This policy is based on all-round wage differentiation: higher pay for skilled and arduous work, and for workers in leading trades and branches of the national economy.

(4) The basic economic law of socialism determines a steady increase in real wages. Factors in raising real wages are: continuous growth of socialist production and productivity of labour in the complete absence of unemployment; systematic reduction of the price of consumer goods; the rise of the cultural and technical level of the workers, and of their skill; improved housing conditions of the working people. The individual money wage of manual and clerical workers is supplemented by large assignments from the State and from public organisations for social and cultural measures. These are an important means of raising real wages.

CHAPTER XXXIV

ECONOMIC ACCOUNTING AND PROFITABILITY. COSTS AND PRICE

Economic Accounting and the Profitability of Enterprises

The economic structure of socialism is free from the contradictions of capitalism, which lead to a tremendous waste of materials and labour. The socialist system of planning the national economy makes possible and necessary a much greater saving in means of production and labour than in all preceding modes of production.

All the various forms of economising in society can be reduced in the last resort to savings in labour time, to economy in living and past labour—i.e., they imply the growth of the productivity of social labour. "The less time required by society to produce wheat, cattle, etc.," Marx wrote, "the greater the time gained for other production, material or spiritual. Both for each individual and for society, all-round development, consumption, and activity depend on the saving of time." (*Marx-Engels Archives*, Russian edition, vol. IV, p. 119.)

Economy in labour-time is objectively necessary for socialist society. It is one of the main factors which make the uninterrupted growth of production possible. This makes it enormously important for socialist economy systematically to observe a régime of economy. *The régime of economy* is a principle of socialist economic management; it consists in saving, in the interests of society as a whole, working time, materials and money, in all enterprises and institutions.

One of the basic tasks of the Socialist State in its economic organising work is to bring about the strictest economy of resources.

The Communist Party and the Soviet State rally the mass of the people in a struggle for economy, so that every hour of social labour which is expended, and every unit of equipment, fuel, power and raw materials, will lead to ever-increasing output. In the capitalist system, economy in production outlays is obtained at the expense of the working people, by worsening

their working conditions and by increased exploitation. As against this, economy of expenditure of labour and material resources in a socialist system serves the interests of the whole of society and leads to improvements in the position of the working people; it is therefore the affair of the whole people.

Economy of both living and congealed labour is effected in socialist society by means of economic accounting. Lenin pointed out that socialism can be built, and tens of millions of people can be led to communism, "not directly relying on enthusiasm, but aided by the enthusiasm engendered by the great revolution, and on the basis of personal interest, personal incentive and economic accounting". (Lenin, "The fourth anniversary of the October Revolution", *Selected Works*, 1950, English edition, vol. II, Pt. 2, p. 601. [N.B.—The words "business principles", used in the edition quoted, are here replaced by "economic accounting", a more precise rendering of the Russian original.—Editor.]) *Economic accounting* is a method of planned economic management in socialist enterprises, based on the operation of the law of value: it requires the comparison of the input and output of economic activities in money terms, compensation for the expenditure carried out by an enterprise out of its own income, economy of resources, and ensuring that the enterprise is profitable.

Economic accounting is based on the utilisation of the law of value. As was stated above, in socialist society the input and output, the income and expenditure of socialist enterprises, are expressed and measured in a value and money form. Economic accounting is the method of socialist management which makes it possible, using the money form of value, to calculate so as to compare the expenditure of an enterprise with its income and disclose its profits or losses.

Economic accounting presupposes the need to compensate enterprises for their expenditure by income from the sale of their products at prices laid down by the State. This expresses how the requirements of the law of value are taken into account.

Economic accounting is aimed at achieving the best economic results for the smallest expenditure, ensuring the profitability of enterprises through economy and rational utilisation of resources. *Profitability* means that the receipts of an enterprise from selling its output replace its costs and provide an extra income in addition. Profitability is one of the most important

indications of the economic effectiveness of the work of an enterprise in a particular period. "The profitableness of individual plants and industries is of immense value for the development of our country. It must be taken into account both when planning construction and when planning production. It is an elementary requirement of our economic activity at the present stage of development." (Stalin, *Economic Problems of Socialism in the U.S.S.R.*, 1952, p. 62.)

Economic accounting provides a material stimulus to improvement in the economic activity of an enterprise, fosters a spirit of rational conduct of the enterprise in its leaders and other workers, disciplines them, teaches them to calculate exactly the amount they produce, to introduce advanced technique, to raise the productivity of labour, to lower costs of production and to increase the profitability of the enterprise.

Based as it is upon the operation of the law of value, economic accounting is at the same time the means of realising the requirements of a basic economic law, the law of planned development of the national economy, and other economic laws of socialism.

Economic accounting, which stimulates economy in working time and the mobilising of the internal reserves of enterprises, contributes to the continuous growth of socialist production on the basis of the application of advanced technique and steady raising of the productivity of labour in the interests of the fullest satisfaction of the growing demands of society as a whole, of the working people.

Economic accounting is the necessary condition for realising the requirements of the law of planned, proportional development of the national economy. It is used as an instrument of the State for planned guidance of enterprises. Economic accounting has the task of ensuring the fulfilment and overfulfilment of the State plans with the least expenditure of labour and means of production, with a rational use of all resources. It serves as a means for checking on the fulfilment of plans in both quantitative and qualitative respects.

In socialist economy, over and above the profitability of particular enterprises and branches of production, a higher measure of profitability, inaccessible to capitalism, is attained—profitability on a national scale. This signifies that profitability

is determined not only from the point of view of particular enterprises and branches of production, and not only within the limits of a single year, but also from the point of view of the whole national economy and over a long period. At the same time an increase in the profitability of individual enterprises and of whole branches of the economy is a necessary condition for acceleration of the rate of development of the whole national economy.

In socialist economy, as already mentioned, in addition to profitable enterprises, there may be enterprises which are of great national economic importance, but which are temporarily unprofitable and even making a loss. The Socialist State supports them by State subsidies, and at the same time takes steps to make them profitable.

Thus, during the 1941–5 war, the system of covering the losses of heavy industry by subsidies was inevitable. But it hindered economic accounting, and weakened material incentives to reduce output costs. Therefore the system of subsidies was abolished after the war (from 1 January, 1949). This was done by increasing labour productivity and reducing costs, and also by temporarily raising output prices in certain branches of heavy industry. Wholesale prices were fixed to correspond with costs. The abolition of subsidies assisted and improved economic accounting, provided incentives to economise in labour and material outlays in industrial production, and established suitable conditions for the subsequent reduction of wholesale prices.

The strengthening of economic accounting demands of the economic organs a struggle for the fulfilment of their accumulation plans by all enterprises; it is incompatible with the practice of taking resources from enterprises which are working well and transferring them to those which are working badly.

Economic accounting expresses the inter-relationship between the Socialist State and its enterprises, and also the relations between individual enterprises.

Economic accounting is based on the combination of *centralised management* of socialist enterprises by the State with economic *independence* of operation for each enterprise. An enterprise is independent in its economic operation in that it receives and has at its disposal State-owned resources, both material and financial, and can exercise considerable initiative in the most rational use of them for the best possible achievement of planning targets.

The Socialist State distributes means of production among its enterprises and provides each of them with sufficient resources in materials and money to fulfil their plan. The enterprise, as a juridically independent economic unit, enters into economic relations with other enterprises and organisations, recruits its skilled workers, and organises its own production, supplies, and sales. It has a current account in the State Bank where it deposits its money resources; it also has the right to receive bank credits, and has an independent balance-sheet.

The independent economic operation of State enterprises takes place within the framework of public ownership of the means of production: the Socialist State continues to own the means of production which it has transferred to the use of a particular enterprise. It arranges the connections between different enterprises in a planned way, taking into account the part played by each of them in the general system of the national economy. The relations between socialist enterprises are not competitive, as under capitalism; they are relations of collaboration in fulfilling public tasks.

Economic accounting implies that an enterprise and its management are *responsible* to the State for fulfilling the plan and for using resources rationally.

The enterprise is responsible for paying wages to manual and clerical workers on time and in the right amounts, for making payments due to the State Budget on time and in full, and for making proper use of Budget appropriations and bank loans which it receives.

Economic accounting also implies that the enterprise is materiallly responsible to other enterprises and economic organisations for meeting its obligations.

Economic relations between enterprises are regulated with the aid of *economic contracts*. Enterprises acquire the means of production they need, and sell their output, by contracts which conform with the general State plan.

The contract sets out: delivery conditions; the amount, variety, and quality of output; times of delivery; the price; times and methods of payment; and forms and extent of responsibility for violating the conditions of the contract. It fixes material penalties for breaches of its provisions.

One of the most important requirements of economic accounting is that contract discipline should be strictly observed by enterprises.

Economic accounting is based on the material *interest* of the enterprise, and of its workers and managerial personnel as a body, in fulfilling the plan, in increasing production continuously and rapidly, in economical and rational management, and in making the enterprise profitable.

This material interest of an enterprise and its workers in plan fulfilment and in improving production is made possible primarily by the fact that the enterprise receives money according to the results of its economic work. Further, part of the income, or profit, remains at the disposal of the enterprise and is used to supplement circulating funds, for capital investment, to improve the cultural and living conditions of the clerical and manual workers and to reward the best workers.

Economic accounting is connected with the utilisation of the economic law of distribution according to work. Distribution according to work provides personal material incentives to the workers to increase labour productivity and economise resources, and leads to a strengthening of economic accounting. In its turn economic accounting facilitates the systematic application of the law of distribution according to work, and the improvement of the well-being of the working people. The higher the income of an enterprise, the greater its possibilities of rewarding its workers by improving their material position and cultural and living conditions and rewarding workers who are foremost in productivity. The more effective economic accounting becomes, the more widely bonuses for economising resources can be paid.

Economic accounting presupposes constant *rouble control* of the work of an enterprise and its separate sections. Rouble control means that the quality of the work of an enterprise is disclosed by the indices of its economic activity expressed in money (costs, profitability, etc.). The enterprise receives its money according to the quality of its work and the extent to which it fulfils the plan. It is required to make its statutory payments on time (returning loans to the bank, payments into the Budget, etc.). It has to settle its accounts with other enterprises (suppliers or purchasers) on time, in conformity with its contracts. Rouble control over the work of enterprises is carried out by economic organisations, financial institutions and the banking system. Mutual rouble control is carried out by enterprises which have signed contracts with each other.

Within an enterprise, rouble control is carried out by keeping accounts of its input and output and comparing them in money terms.

The rational organisation of socialist production requires that elements of economic accounting should be used in shops and production departments within each enterprise. The shop and the department are parts of the enterprise which have some independence in production technology, but are not independent in their economic operation as the enterprise itself is. Economic accounting is therefore used here only to a limited extent. Elements of economic accounting which are used in shops and departments include accounts of their expenditure in money form, comparison of this expenditure with targets laid down by the plan, and material rewards to those workers who have achieved the best results in economising resources.

Systematic enforcement of economic accounting increases the material interest of the enterprise and its workers in production results and in fulfilling the plan, and thus helps to increase productive activity and socialist emulation by the mass of workers, aiming at the full and rational use of resources, and at the careful and prudent management of the economy. Economic accounting seeks to improve continuously the utilisation of all funds at the disposal of enterprises.

Funds of Enterprises. Fixed and Circulating Funds

Material and money resources issued to a State enterprise are public property and constitute the *funds* of these enterprises.

Means of production are the *production funds* of enterprises. As has been shown, the means of production of State enterprises in the U.S.S.R. are not in essence commodities; but they retain the form of commodities, of values, they appear not only in physical but also in money form, and have prices. The distribution of means of production is effected not by supply free of charge but by their being sold for money. In this sense, *circulation* of means of production takes place; consequently these funds go through a continuous process of planned turnover, passing in turn through the production and circulation stages. In conformity with this they change their form—the money form changes to the productive; the productive to the commodity form, the commodity to the money form, and

so on. According to the character of the turnover, the production funds of an enterprise are divided into fixed and circulating.

Fixed funds serve production over a long period, retaining their physical form. The value of fixed funds enters production outlays gradually, in parts, to the extent that these funds are worn out.

Fixed production funds include the means of labour—production buildings, installations, machines, durable tools and implements, and means of transport. *Circulating funds* are entirely consumed in the production process during a single production period, and their value is fully expended in the outlays on producing the commodity concerned. The circulating production funds of an enterprise include raw and other materials, fuel, semi-manufactures, and other objects of labour. Fixed funds are the production apparatus of socialist society; their volume, and the degree to which they are put to use, are an important factor influencing the amount of output produced.

The planned development of technique under socialism demands that the economic effectiveness of the introduction into production of each new type of machine be considered from every standpoint, together with the prospects of its further utilisation.

The invention and putting into use in production of new, more productive and economical machines means that the machines now out-of-date become morally depreciated before the time for their physical depreciation is up. The conception of *moral depreciation* of machinery in socialist society is very important, since the rapid tempos of technical progress demand that out-of-date technique be replaced without delay by new, and new by newer still. The moral depreciation of machines under socialist conditions differs in principle from the moral depreciation of machines under capitalism. The replacement of obsolete equipment by new takes place under socialism not spontaneously or through competition but in a planned way, so that these replacements do not lead to the ruin of small and medium enterprises and are not accompanied by the wastage of productive forces that takes place under capitalism. The planned conduct of the national economy creates extensive possibilities for the rational use of all available technique.

To replace fixed funds as they are worn out the enterprise has

a *depreciation fund*. Allocations for depreciation should ensure constant renewal of the production apparatus. The depreciation fund is formed by including a definite part of the value of the fixed funds, corresponding to the extent to which they are used up, in the outlay on every unit of output. Part of the resources of the depreciation fund (the amount is fixed by the State) is used in planned fashion to replace fixed funds which have gone out of use, and the rest remains at the disposal of the enterprise to be expended on capital repair of the existing fixed funds.

In addition to funds in the sphere of production, enterprises possess resources functioning in the sphere of circulation, or *funds of circulation*. These consist of finished output ready for sale, and the money resources of the enterprise, required for purchasing raw materials and fuel, for paying wages, etc.

Circulating production funds and funds of circulation taken together constitute the *circulating resources* of an enterprise. The circulating resources of an enterprise are divided into its own and borrowed resources. These are both formed in a planned way.

An enterprise's own circulating resources are allocated to it by the State to cover its minimum needs. It also needs supplementary or temporary circulating resources; for example, it has to acquire seasonal stocks of raw material and fuel, and it has to finance goods in transit. These are covered by borrowed resources (State Bank credits), for the use of which the Bank charges a fixed rate of interest. This system of allotting circulating resources encourages the enterprise to use them as rationally and economically as possible, and to speed up their turnover.

The socialist system of economy ensures the continuous growth of fixed and circulating funds and makes it possible to make considerably better use of them than capitalism does. The State fixes standards which are obligatory for the enterprises—*progressive technical and economic standards* of utilisation of machines and equipment, standards of consumption of raw materials, fuel and other elements of the circulating fund per unit of finished output (iron ore and coke per ton of pig-iron, sugar-beet per ton of sugar, etc.) and *standards of stocks* for each constituent part of the circulating fund and of the finished output. The correct fixing of these standards is an important factor in the systematic raising of the level of utilisation of the fixed funds and circulating resources.

In the iron and steel enterprises of the U.S.S.R. the effective utilisation of blast-furnaces was in 1940 nearly double what it had been in 1913. In 1954 the utilisation of blast-furnaces was 43 per cent and of open-hearth furnaces 48 per cent above the 1940 level.

The velocity of turnover of circulating resources is one of the main qualitative indices of the economic activity of an enterprise.

The velocity of turnover of the resources of an enterprise depends, firstly, on the time of production, in the course of which these resources are in the sphere of production, i.e., in the form of production stocks, unfinished production or semi-products, and, secondly, on the time during which these resources are in the sphere of circulation (in the form of stocks of output ready for sale, etc.).

Increasing the velocity of turnover of circulating resources is of great importance in giving effect to the régime of economy and in freeing supplementary resources for increasing production. Accelerating this turnover is an important factor for the enterprise in fulfilling its output and accumulation plan, and ensures the fulfilment of the plan with a smaller amount of circulating resources.

Accelerating the turnover of circulating resources demands reduction in the time of production and the time of circulation and a constant struggle against the formation of surplus (above standard) stocks of raw material, semi-products and finished products. Reduction of the production cycle is achieved by accelerating the production processes on the basis of using advanced technique, applying the latest achievements of science to production and improving the organisation of labour. The time of circulation is reduced by increasing the quality of transport work and by more rational organisation of the supplying of the enterprise and the marketing of its products.

Socialist emulation is of great importance in strengthening economic accounting and in increasing the velocity of turnover of circulating resources. The use of circulating resources by State enterprises is made considerably more effective by reducing the production cycle, by improving the organisation of supplies to the enterprises and of the sale of their output, and by reinforcing financial discipline.

In addition to production funds and funds of circulation, enterprises also have fixed funds which serve the consumer—

housing, clubs, and other social and cultural buildings and amenities with their equipment.

Economical and effective utilisation by socialist enterprises of their fixed and circulating funds makes it possible to increase the volume of output and to reduce its cost.

Production Costs

In socialist society all expenditures of social labour on making a particular product are social production outlays. The social outlays on the production of commodities constitute the value of those commodities. Production outlays on the means of production are also expressed and measured in a value or money form. Social production outlays in socialist society consist of the following three parts: (i) the value of used-up means of production; (ii) the value of the product created by labour for itself; and (iii) the value of the product created by labour for society.

The first two parts of the social outlays of production enter into production costs in socialist enterprises. Production *costs* are the expression in money terms of that part of the value of production which makes up the expenditure of an enterprise on used-up means of production and on wages. Costs therefore embody both past labour included in the used-up means of production, and that part of the newly-expended labour which creates the product for itself.

The category of production costs in socialist enterprises must not be confused with the category of capitalist production outlays. It does not express outlay of capital. Savings in capitalist production outlays are achieved by increasing exploitation of the working people, but reduction in production costs in socialist economy expresses saving in social labour in the interests of the whole of society.

Production costs show what, concretely, it costs a particular enterprise to manufacture and market its products. The calculation and planning of costs are a very important condition for the realisation of economic accounting.

The value of used-up means of production is reflected in production costs through prices for equipment, raw material, fuel, etc., which may deviate from value.

In practice, production costs in State enterprises consist of

(i) outlays on raw and other materials, fuel and power, used up in production; (ii) depreciation charges; (iii) wages of manual and clerical workers, with the additional charges calculated on the basis of wages paid; (iv) various money expenditures for administrative and management purposes and credit payments. The additional charges to wages and credit payments are the expression in money of part of the product for society.

The inclusion in costs of certain elements of the value of the product for society is connected with economic accounting, being caused by the need to separate off as a special category the monetary expenditure of enterprises on the production and realisation of their products, regardless of the sources of this expenditure.

There are two main forms of industrial production costs—factory or works' costs, and full (or "commercial") costs. *Factory or works' costs* cover the expenditure of an enterprise on the production of its output. *Full costs* consist of factory costs plus expenditure connected with sale of output (maintenance of sales offices and bases, transport charges, and the expenditures of trusts and combines on economic administration).

In 1954 about three-quarters of industrial production costs in the U.S.S.R. consisted of material outlays (on raw materials, fuel, power, depreciation, etc.), and one-quarter consisted of wages.

The entire productive work of an enterprise, together with its activity in connection with obtaining supplies of material and disposing of the finished product, finds generalised expression in its costs of production.

The lower the costs (providing that the output plan has been fulfilled and that output is of the appropriate quality), the higher the level of the economic work of an enterprise. "Reduction in the costs of production, transport and building is the most generalised index there is of the quality of the work of the national economy. Costs depend on the degree of productivity of labour and the expenditure on labour-power, on the level of utilisation of equipment, on economy and the observation of standards in the use of raw material, fuel and other materials, and on the expenses of circulation, especially transport." (L. M. Kaganovich, *Speech at the First Session of the Supreme Soviet of the U.S.S.R.*, 24 April 1954.) The State systematically sets planned targets for reducing output costs, on the basis of raising the productivity of labour, with progressive

standards of labour outlays and of the utilisation of the fixed and circulating means of production, acceleration of the turnover of resources, and reduction of expenditure on the upkeep of the administrative apparatus.

Systematic reduction of the costs of production of socialist enterprises means constant economy of both living and past labour. It reflects the demands of the law of steady raising of the productivity of social labour. Reduction of costs is one of the central tasks of socialist management. Every percentage by which the costs of production, transport and building are reduced gives socialist society milliards of roubles which are used to extend production and improve the people's welfare. Active participation by the masses in the struggle for economy in the national economy is of very great importance for the reduction of costs.

The costs of production are being systematically reduced in the State industries of the U.S.S.R. Thus, the cost of production was reduced as compared with the previous year, taking into account the reduction in prices of raw and other materials and fuel and the costs of electrical and thermal power and freight charges: in 1951 by 7 per cent, in 1952 by more than 8 per cent, in 1953 by more than 5 per cent and in 1954 by nearly 4 per cent.

The national economy of the U.S.S.R. contains large unused reserves for the reduction of production expenses. A considerable section of our industrial enterprises do not fulfil their planned tasks for reducing the cost of production, do not effect the necessary economies of raw and other materials, fuel and power, do not carry on a resolute fight against unproductive expenses. One of the main causes why plans for the reduction of costs are not fulfilled is the existence of extensive losses due to spoilage in production. A serious improvement in the qualitative indices of production in all enterprises is one of the conditions necessary for the further advance of Soviet industry.

The Net Income of a State Enterprise. The Centralised Net Income of the State

The difference between the value and cost of production constitutes the *net income of society*, in which is expressed the product for society created by the labour of workers in socialist production. Thus, whereas the cost of production is one of the main elements of the value of this production, the second element of this value is the net income. In the State sector the

whole of the net income is public property. It is expressed in money, and takes two basic forms—the net income of the State enterprise and the centralised net income of the State. Both forms of net income are created in the sphere of production, in socialist enterprises. They differ in the methods by which they are accumulated and used.

The net income of a State enterprise is that part of the net income created by labour for society, which is accumulated in the enterprise concerned and is used to a considerable extent for the enterprise's own needs. The *centralised net income of the State* is that part of the net income of society which is concentrated in State hands to be used for public needs.

These two forms of net income are made necessary by the system of economic accounting, on the one hand, and, on the other hand, by the fact that socialist economy needs to centralise a considerable part of its net income. This enables the Socialist State to make sure that the workers have an interest both in increasing the profitability of every individual enterprise and in satisfying the needs of society as a whole.

In everyday economic practice the net income of State enterprises is called "profit". But in socialist society the conditions in which the economic category called profit can exist have completely vanished, for profit expresses the economic relations of capitalist exploitation. In view of this the net income of a State enterprise is not in essence profit. The size of the net income of an enterprise depends on the extent to which production, sales and cost-reduction plans are fulfilled. Costs and net income are closely connected: a reduction in production costs leads to a rise in the net income of an enterprise.

The net income of enterprises is used by the State in a planned way. Part of it is allocated to the extension of production in the enterprise or branch concerned (by capital investments and the increase of its own circulating resources), and another part forms the *enterprise's fund*, for improving the cultural and living conditions of the workers and improving production. The part of the net income remaining after these needs have been met is transferred to the State in the form of what are called "deductions from profits".

An enterprise fund is formed in all State industrial enterprises which operate under the system of economic accounting and have an independent balance. The condition for the formation of this

fund is the fulfilment or overfulfilment by an enterprise of the State plan for the output of marketable products as a whole and in respect of basic items, and also the plan for reduction of costs of production and for accumulation of net income (profit). The source from which the fund is formed is the net income (profit) of the enterprise; in enterprises where the plan does not provide for the making of a profit, the source is economies achieved by reducing the costs of production. When the plan for the accumulation of net income and the tasks assigned for reducing costs of production are overfulfilled, from 20 to 50 per cent of the amount of net income (profit) above the planned figure, or of the amount beyond the planned figure that has been saved on costs of production, is allocated to the enterprise fund. Thus, the formation of an enterprise fund depends on the quality of the economic activity carried on by the enterprise. In this way the fund plays a great part in providing a material stimulus for the fulfilment or overfulfilment of the plan, the strengthening of economic accounting and the raising of the profitability of production.

Half of the funds in the enterprise fund are spent on introducing new technique and improving existing equipment, extending production, and on building and repairs to houses belonging to the enterprise, over and above the plan's provision for capital investments. The other half of the funds go on improving the cultural and living amenities of the workers of the enterprise (extending subsidiary economies, institutions for children, equipment of holiday homes and sanatoria, canteens, clubs, physical culture facilities), and also on the award of individual bonuses to workers, office-workers, and engineering and technical personnel, providing travel-warrants to holiday homes and sanatoria and making grants-in-aid to employees of the enterprise.

The net income of enterprises is continuously rising as a result of the continuous and rapid increase in production and labour productivity, and of the reduction in costs. Total net income (profits) of enterprises and economic organisations of the U.S.S.R. was 6·6 milliard roubles in 1932, 31·8 milliards in 1940, 89·8 milliards in 1953, and according to the plan was to be 143·3 milliards in 1955.

The size of the net income of a State enterprise directly depends to a great extent on the work of the enterprise itself—on the extent to which it reduces its costs per unit of output and fulfils its production and sales plan. A rise in net income enables the amount transferred to the enterprise fund to be increased, and ensures an increase in the circulating resources and capital investments. Thus the net income of a State enterprise is indissolubly connected with economic accounting, and provides a direct incentive to improve the quality of the work of the enterprise.

The Socialist State plans the amount of the net income of enterprises, and thereby determines the standard (or level) of profitability for particular kinds of production and enterprises. The *profitability standard* of an enterprise is the ratio of its total net income to the full costs of output sold, expressed as a percentage.

The profitability standard of a socialist enterprise is different in principle from the rate of profit under capitalism, which is connected with relations of exploitation. In socialist economy the law of the average rate of profit and the price of production does not operate. The profitability standard is not the result of an equalising of the net incomes of enterprises; it is fixed by the State on the basis of the specific conditions in which the enterprise works, and takes into account both the interest of the latter in securing net income and the need to enforce rouble control of the work of the enterprise. In doing this the State takes into account the need to lay down a profitability standard for the enterprise which does not allow the latter to accumulate excessive cash resources, and continuously encourages it to reinforce economic accounting and reduce production costs. If the standard of profitability is too generous the enterprise can obtain a considerable net income without waging a struggle to reduce costs of production.

The centralised net income of the State comes into the State Budget in the form of various allocations from the incomes of socialist enterprises. The main part of the centralised net income of the State comes into the Budget in the form of allocations made from the incomes of enterprises according to fixed rates; these allocations enter into the prices of industrial products in amounts fixed beforehand. Allocations according to fixed rates are in practice called "turnover tax". They are not at the disposal of the enterprises and immediately after the products are sold they pass into the State Budget. The amount of this section of the centralised net income ("turnover tax") which falls on a unit of production, e.g., a yard of cloth or a pair of shoes, does not directly depend on the enterprise's fulfilment of the plan regarding costs. However, the amount of the net income (profit) of the enterprise does depend directly on the extent to which the cost of a unit of production, e.g., a metre of cloth or a pair of shoes, has been reduced. The lower the cost of production, the higher the net income of the enterprise.

Even though part of the centralised net income of the State passes into the State Budget at fixed rates and is called "turnover tax", it does not have the nature of a tax, or of deduction from the incomes of the working people in any form. Thus, the level of wages is decided by the Socialist State on the basis of the need systematically to increase the real level of wages —and this takes into account the prices of consumer goods, including the so-called turnover tax.

In the process of distribution, part of the net income of State enterprises is also transferred to the centralised net income of the State in the form of deductions from profits. Furthermore, into the centralised net income of the State pass charges for social insurance needs calculated on the basis of the total wages bill, which for practical purposes are treated as an element of costs but in essence form part of net income, etc. In addition, part of the net income of co-operative and collective farm enterprise is transferred to the centralised net income of the State.

Price in State Industrial Enterprises

Costs, the net income of the enterprise, and part of the centralised net income of the State in the form of the so-called turnover tax, all form part of the price of industrial output.

In the State industry of the U.S.S.R. there are these two basic forms of price: the wholesale price at the enterprise and the wholesale price of industry. The *wholesale price at the enterprise* is equal to the planned cost plus the net income of the enterprise (profit).

The *wholesale price of industry* includes the wholesale price at the enterprise and that part of the centralised net income of the State which is allocated to the Budget at fixed rates, the "turnover tax".

The net income of society is created in all branches of production—in industry, in agriculture, in transport, etc. However, part of the centralised net income of the State, allocated at fixed rates, passes into the Budget through the price mechanism primarily from those branches of the economy which produce consumer goods. Prices for the output of branches which produce means of production, as a rule, are fixed below the value, since they do not contain parts of the net income created in these branches. Thereby this part of the net income

passes from heavy industry into light industry and the food-producing industry and is realised in the prices of consumer goods. This ensures a relatively low level of prices for the means of production which are used in industry, agriculture and building, and reduces their cost of production accordingly.

The wholesale price at the enterprise ensures for the enterprise compensation for its planned expenditure and the receipt of net income. In fixing wholesale prices at the enterprise at levels which ensure the profitability of enterprises, the State takes into account the operation of the law of value. Wholesale prices at the enterprise play a big part in the system of economic accounting and rouble control of costs. The requirements of economic accounting demand a level of wholesale prices such as will stimulate improvement in the quality of an enterprise's work, encourage it to economise resources and reduce costs. Wholesale prices which do not guarantee that when the enterprise fulfils the plan as regards costs it will make a profit or even recover its expenses lead to a weakening in economic accounting and in the enterprise's incentive to raise the quality of its economic activity. On the other hand, high wholesale prices which guarantee profitability even when the enterprise uses backward methods of work do not stimulate the application of progressive production standards.

The continuous growth and improvement of socialist production provides the basis for reduction of wholesale prices. The Socialist State consistently carries out a policy of systematic reduction of costs of industrial production and reduction of prices of industrial commodities. In turn, the reduction of prices serves as a factor in the reduction of costs. So as to have net income when prices are reduced an enterprise must restrict in every possible way its expenditure per unit of production.

By reducing wholesale prices, the State encourages the managements of enterprises to reduce expenditures so as to keep production profitable, to improve the organisation of labour, and to find and utilise hidden reserves in the economy.

. In the period from 1950 to 1955, on the basis of the growth of production and reduction in the costs of production, a threefold reduction of wholesale prices in industry was carried out, as a result of which wholesale prices in heavy industry in the middle of 1955 were below the level of wholesale prices prevailing at the end of 1948, before the system of subsidies to cover the losses of heavy

industry was abolished and a temporary increase in wholesale prices introduced for the products of certain branches of heavy industry.

The systematic reduction of wholesale prices strengthens economic accounting and provides the basis for reducing retail prices.

BRIEF CONCLUSIONS

(1) Socialism makes widely possible economies in all production resources, and these economies lead in the long run to a continuous saving in labour-time, i.e., in living and congealed labour. Economy of labour, both living and congealed, in socialist enterprises, is effected by means of economic accounting. Economic accounting is the method of planned management of the economy of socialist enterprises. Based on the operation of the law of value, it involves the measurement of production outlays and results of economic activity in money terms, the meeting of expenditures out of the income received by enterprises themselves, economy of resources, and ensuring production at a profit. Economic accounting presupposes that the enterprise has independence in economic operation, is responsible for using the resources placed at its disposal economically, and is materially interested in improving the results of its work. It is aimed at the fulfilment and overfulfilment of plans in respect of both quantitative and qualitative indices.

(2) Production funds of State socialist enterprises are divided into fixed and circulating. The circulating funds, and the funds of circulation, together make up the circulating resources of an enterprise. The socialist system of economy ensures the fullest possible and most appropriate use of fixed funds and circulating resources.

(3) Production costs are that part of social production outlays, expressed in money form, which comprise outlay on used-up means of production and wages. They are a most important index of the quality of the work of an enterprise. The systematic reduction of costs and prices is one of the basic principles of socialist economic management.

(4) The product of labour for society constitutes the net income of socialist society. Net income in the State production sector is received in two basic forms—as the net income of

State enterprises and as the centralised net income of the State. The net income of State enterprises is that part of the net income created by labour for society which is accumulated in a particular enterprise, and is used to a considerable extent to meet its own needs. The centralised net income of the State is that part of the net income of society which is concentrated in the hands of the State to be used for general public purposes. Such a division of the net income is caused by the necessity, on the one hand, of ensuring that economic accounting should work properly, and, on the other hand, of making centralised use of a considerable part of the net income of society for general State requirements.

(5) In the State industry of the U.S.S.R. there are two main forms of price: wholesale price at the enterprise and wholesale price of industry. The wholesale price at the enterprise is equivalent to the planned cost plus the net income of the enterprise. The wholesale price of industry includes the wholesale price at the enterprise and part of the centralised net income of the State, allocated to the budget at fixed rates.

CHAPTER XXXV

THE SOCIALIST SYSTEM OF AGRICULTURE

The Place and Role of Socialist Agriculture in the National Economy

The socialist system of agriculture is based on State (public) and co-operative collective farm ownership of the means of production. The system includes collective farms, machine and tractor stations and State farms.

Socialist agriculture plays an important part in the securing of the maximum satisfaction of the constantly growing material and cultural needs of the whole of society. It is the *food base*, supplying the population with foodstuffs, and the *raw materials base* for the light and food industries, which produce objects of mass consumption.

> "Socialist society is a producers' and consumers' association of those who work in industry and agriculture. If, in this association, industry is not linked up with agriculture, which provides raw materials and food and absorbs the products of industry, if industry and agriculture do not thus constitute a single, national-economic whole, there will be no socialism whatever." (Stalin, "Questions and Answers", *Works*, English edition, vol. VII, p. 203.)

Industry is the leading element in relation to agriculture. Large-scale highly mechanised agriculture depends to a vast extent on industry, which produces tractors, combine harvesters and other agricultural machines, their spare parts, fuel, mineral fertilisers, chemicals for pest control, and so on. A steady rise in socialist agriculture can be secured only on the basis of a preferentially rapid growth in the output of means of production supplied for agriculture by socialist industry.

At the same time the development of industry and other branches of the national economy depend on an uninterrupted and rapid raising of agricultural production. The increasing of the people's well-being and the growth of the town population, demand increased output of grain, meat, milk, green

vegetables and other agricultural produce. The expansion of the output of manufactured goods is only possible on the basis of a growing output of agricultural raw materials for the various branches of the light and food industries: cotton, flax, wool, sugar-beet, oil crops, and so on.

The socialist system of agriculture creates the possibility of a systematic growth in productivity of agricultural production and an increase in its marketed surplus. The productivity of labour in socialist agriculture in the U.S.S.R. in 1954 was three times as great as the productivity of labour in pre-revolutionary agriculture, which testifies to the great advantages of collective and State farm production.

The marketed output production of agriculture increased, between 1926–7 and 1952–3, in the case of grain from 10·3 million tons to 40·4 millions, of potatoes from 3 million tons to 12·5 millions, of meat (live weight) from 2·4 million tons to 5 millions, of milk from 4·3 million tons to 13·2 millions. Great successes have been achieved in the production of cotton, sugar-beet and some other industrial crops.

But the level of agricultural production achieved in the U.S.S.R. does not correspond to the high technical equipment of agriculture and to the possibilities latent in the socialist system of agriculture and does not yet satisfy the constantly growing requirements of the population as regards foodstuffs, and those of light industry as regards agricultural raw materials.

In order to fulfil all the requirements of the population for various foodstuffs and to develop widely the different branches of the light and food-producing industries, it is essential not only rapidly to increase agricultural production as a whole, but also to improve its structure (increasing the relative importance of livestock breeding, of valuable crops, etc.).

This demands above all an increase in grain production. Grain farming is the basis of the whole of agricultural production. In order to solve the problem of livestock breeding as soon as possible, it is essential to provide all stock with grain fodders: maize, barley and oats. The expansion of cotton, flax, sugar-beet and sunflower production, as well as that of other industrial crops, means that bread must be provided for those engaged in raising these crops. Thus the development of all branches of agriculture depends on an increase in grain output.

The all-round satisfaction of the population's requirements in foodstuffs and the improvement of the structure of its diet also demand further development of stockbreeding and of all other branches of agriculture: potato and other vegetable growing, fruit growing, viticulture, etc. Socialist agriculture has great and still far from exhausted possibilities of ensuring full supplies of agricultural produce for the population and of raw material for industry.

The great successes achieved in the development of heavy industry allowed the Communist Party and the Soviet State to set forth in 1953–4 a programme for a steep rise in all branches of agricultural production and to undertake the practical realisation of this programme. The January, 1955, Plenum of the Central Committee of the C.P.S.U. took the decision to raise the gross yield of grain during the next five or six years to ten milliard poods a year and to double and more than double the output of the main products of animal husbandry. The sources from which the gross yield of grain are to be increased are: raising the crop capacity of all sown areas, reduction in losses in harvesting, reclamation of virgin and fallow land. The task of sharply increasing the production of grain is exceptionally important for the carrying through of the great plans of communist construction. The struggle to extend grain production is a struggle to strengthen the economic might of our homeland and to achieve a further improvement in the well-being of the people.

Raising the gross yield of grain to ten milliard poods a year will enable all demands for grain to be fully met, more substantial reserves to be formed, trade with foreign countries to be extended, and also more than four milliard poods of grain to be set aside for stockbreeding—particularly maize, but also a considerable quantity of bran, oil-cake and other types of fodder. Stockbreeding will be provided with a stable fodder base and will become highly productive, with a great deal of its product available for marketing, and will ensure the supply to the population of the necessary quantity of animal products.

The experience of the advanced collective farms, M.T.S. and State farms shows that this task can be accomplished in a shorter period than was planned.

One of the most important conditions of an increase in all branches of agricultural production is the most *complete and all*

round utilisation of the land as the main means of production in agriculture. Public ownership of the land is an important factor in reducing the costs of agricultural produce, in steadily raising the material position of the Soviet peasantry.

In pre-revolutionary Russia the poor and middle peasants had about 330 million acres of agricultural land. As a result of the October Socialist Revolution and the victory of the collective farm system the collective farm peasantry in 1937 already had for their use more than 910 million acres of agricultural land, i.e., almost three times as much. At the present time, including the collective farms of the western regions of the Ukrainian S.S.R. and the Belorussian S.S.R., the western districts of the Moldavian S.S.R., and the Baltic Soviet Republics, the collective farm peasantry has for its use 980 million acres of agricultural land, and in all, including forests and other lands not yet used for agriculture, 1,430 million acres of land are secured to the collective farms for their perpetual use. Apart from this, the collective farms have, for long-term use without payment, 445 million acres of the State land fund and the State forest fund, of which 163 million acres are agricultural land.

The State farms have about 170 million acres of agricultural land; subsidiary farms belonging to factories and institutions, and other land users, have more than 46 million acres.

The collective and State farms have huge reserves of unutilised, fertile, *virgin and long-fallow lands*. The acquisition of these lands offers the possibility of considerably increasing in a very short period the output of agricultural produce.

The economic necessity for the nation of increasing the production of grain and other agricultural products has required the carrying out of large-scale public works for the fullest development of the land wealth of the country. In keeping with the decisions of the February–March, 1954, Plenum of the Central Committee of the Communist Party of the Soviet Union "on the further expansion of grain production and on the development of virgin and long-fallow lands", and with subsequent decisions of the Communist Party and the Soviet State, a vast programme has been adopted which provides for the development of virgin and long-fallow lands, mainly in the country's eastern districts, so that the sown area of grain and other agricultural crops on newly-developed lands should reach 69–74 million acres in 1956. The successful fulfilment of this national task made possible even in 1954 and the first half of 1955 the opening-up of 65 million acres of highly fertile virgin and long-fallow lands in collective and State farms.

The large tracts of land secured to each collective and State farm allow the most productive use of tractors, combines and other complex agricultural machines, the introduction of correct crop rotations, work on land improvement, the construction of irrigation and drainage canals, afforestation, etc. The land, Marx pointed out, constantly improves if it is correctly treated. The socialist system affords every possibility of creating a rational system of agriculture which ensures a regular increase in soil fertility and the highest productivity of agricultural output.

A rational system of agriculture presupposes its intensification. *Intensification* of agriculture means the additional investment of means of production in a given land area and the improvement of agriculture methods, so as to obtain the greatest quantity of produce from each acre under cultivation by reducing the expenditure of labour and resources per unit of production. Intensification presupposes the application of artificial and organic fertilisers, the raising of highly productive breeds of cattle, the application of the latest achievements of agronomic and veterinary science, etc. This is the main line of development for socialist agriculture.

The Machine and Tractor Stations—The Industrial Base of Collective Farm Production

The collective farms are served by State-owned machine and tractor stations, in which are concentrated the most important implements of agricultural production.

The concentration in State hands of the most important means of agricultural production is a great advantage of the collective farm system. Agricultural technique is ceaselessly being perfected. The constant progress of socialist agriculture is unthinkable without this. The creation of numerous machines which are being more and more improved demands large-scale capital investments, which pay for themselves after a number of years. The Soviet State invests in agriculture considerable and ever-growing resources which would be beyond the means of even the largest individual agricultural enterprises.

In 1953 alone expenditure on the development of agriculture provided by the State Budget, and also out of other public funds,

amounted to 52 milliard roubles. In 1954 this expenditure increased to 74·4 milliard roubles. In the Budget allocations, expenditure on further strengthening the machine and tractor stations amounted in 1954 to more than 32 milliard roubles.

Machine and tractor stations are the industrial material and technical base of collective farm production, and represent a decisive force in the development of the collective farms. The production link between industry and agriculture is realised through the M.T.S. The socialist production relations between the working class and the collective farm peasantry are expressed in the mutual relations between the machine and tractor stations and the collective farms.

Thanks to the M.T.S., the development of the collective farms takes place on the basis of the highest technique. A high level of mechanisation of collective farm production is the basis on which labour productivity in collective farms is raised. Mechanisation has to an enormous extent lightened the labour of collective farmers and made possible the carrying out of agricultural work in periods which correspond with the rules of agronomic science and the application of the achievements of advanced agricultural technique. The wide use of M.T.S. machines in collective farm production greatly economises labour expenditure in agricultural production.

By the beginning of 1954 the machine and tractor stations had at their disposal more than three-quarters of the total capacity of mechanical prime movers (including electric) in M.T.S. and collective farms. In 1954 more than 80 per cent of the basic field work in collective farms, including almost all the ploughing, was carried out by the M.T.S. The annual labour of 23 million workers less than would have been needed to carry out the same work in conditions of individual peasant holdings was expended on work carried out in 1953 by the M.T.S. with the help of tractors and combines.

> "The principal task of the M.T.S.'s is to secure the greatest possible increase in the yields of all crops in the collective farms, to help the latter to increase their socially-owned herd and its productivity and to raise the total output and marketable surplus of crops and livestock in the collective farms they serve." (Resolution of the September, 1953, Plenum of the Central Committee of the C.P.S.U. *The C.P.S.U. in Resolutions and Decisions of its Congresses, Conferences and Central Committee meetings*, 7th Russian edition, Pt. II, p. 1182.)

The *complex mechanisation* of all branches of collective farm production—in grain farming, in the raising of technical and fodder crops, in vegetable growing and also in the arduous jobs in the livestock departments of collective farms—is the most important condition for solving this problem. In the M.T.S. and the specialised stations regular cadres of skilled mechanics have been formed—tractor drivers, tractor team leaders, combine operators and operators of other complex agricultural machines. This makes possible the fullest and most productive use of the wealth of complex agricultural machinery available.

The M.T.S., as large-scale industrial-type State enterprises serving the collective farms, have the responsibility of acting as guides to a high level of agriculture and organisers of collective farm production. Through the M.T.S. the Soviet State exercises its function as economic guide and organiser in the strengthening of the collective farms. The M.T.S. helps them in the planning of their socialised sector, in the correct organisation of labour, in the training of personnel, in the whole economic, political and cultural life of the Soviet countryside.

Until 1953 the rich and complex machinery in the M.T.S. was entrusted to seasonal collective farm workers, who were allocated by the farms to work in the M.T.S. just for the period of field work. In accordance with the decisions of the September, 1953, Plenum of the Central Committee of the Communist Party of the Soviet Union, permanent cadres of mechanics were created in the M.T.S. The total number of permanent workers on the strength of the M.T.S. in 1954 was about two million, which included one million tractor drivers, 200,000 tractor team leaders and their assistants, and 240,000 combine operators.

The M.T.S. serve the collective farms on the basis of agreements concluded with them which have the force of law for both sides. The obtaining by the collective farms, served by a given M.T.S., of the greatest quantity of produce and money income per hundred acres of agricultural land with the least possible expenditure of labour and resources per unit of production is the basic economic index of M.T.S. activity. The M.T.S. are responsible for carrying out State deliveries of agricultural produce from the collective farms.

In accordance with the agreements concluded by the M.T.S. with the collective farms, the latter pay for the work done for them by the former in kind (in agricultural produce), for

certain work, however, in money. *The payment in kind* for M.T.S. work is that part of the collective farm's gross production which reimburses the outlay of the State M.T.S. on the production of collective farm output. The payment in kind embodies in itself past labour, consisting of the expended means of production of the M.T.S., and also the newly-expended labour of the M.T.S. workers, which consists of labour for themselves and labour for society. The rates of payment in kind for M.T.S. work are fixed, but differentiated according to the zones of the country and their economic and natural conditions. For overfulfilment of planned yields of agricultural crops, the M.T.S. receive from the collective farms a definite part of the harvest gathered above plan.

Selling the agricultural produce coming from the collective farms as payment in kind, the State obtains money which is spent on replacing used-up means of production of the M.T.S. and on the wages of M.T.S. workers. Through the sale of agricultural produce supplied as payment in kind the State also obtains a net income which is used to expand existing M.T.S., to construct new M.T.S. and for other public needs.

The establishment of fixed rates of payment in kind is an important condition for the M.T.S. advancing from being financed out of the Budget to economic accounting so that each M.T.S. should spend its resources in keeping with the income it has received. The introduction of economic accounting into the M.T.S. and observance by them of a régime of economy are of great importance for the reduction of the cost per centner of agricultural produce received as payment in kind, fuller and more efficient use of machinery, high-quality and timely repair of machines and careful maintenance of the latter.

The principle of the material interest of workers in the results of their labour is applied in the M.T.S. in particular forms, different from the forms of payment of labour in other State enterprises and in the collective farms. Permanent and seasonal workers in the tractor teams receive payment for their labour *in money* and *in kind*, on the basis of piece-rates. Moreover, during the period of field work, payment is reckoned according to the output standards they have kept up and on the basis of prices calculated in work-days. The State, through the M.T.S., pays the permanent and seasonal tractor-team workers for each work-day they perform a *guaranteed minimum* in kind (grain), the size of the minimum depending on the fulfilment

of the planned tasks as regards yields of agricultural crops in the collective farms served.

In addition to this, tractor-team workers receive from the collective farm in which they are working, for the work-days they have earned, the difference between the actual payment in grain per work-earned day and the guaranteed minimum: this applies likewise to all other agricultural produce, on the same footing as the collective farmers. During the period of work away from the fields (in repair shops, at work on the mechanical side of the livestock departments, on M.T.S. buildings) the M.T.S. pay their workers a money wage on the basis of piece rates.

The system of payment of M.T.S. workers gives them a material interest in the better use of agricultural technique and in raising collective farm production.

The Socialised Sector of the Collective Farms. Planning of Collective Farm Production

Freed from the necessity of spending large sums on the purchase and rent of land, as well as on the purchase of the most important implements of production, the collective farms are able to use their growing income for the development of their socialised sector. *The socialised sector of the collective farm* is organised on State land and run with the help of modern machinery, concentrated in the M.T.S. and constituting public property. The means of production belonging to the artel, and the output of the collective farms, constitute co-operative collective farm property.

Since the agricultural artel is an enterprise of co-operative type, the socialised means of production are part of the indivisible fund of the collective farm. *The indivisible fund of the collective farm* consists of: collective farm implements of labour, work and store cattle, buildings, means of transport, subsidiary enterprises, long-term plantations, irrigation works, materials and money allocated for the development of the socialised sector. Cultural buildings and amenities (collective farm clubs, reading-rooms, kindergartens, etc.) also belong to the indivisible fund. The constant growth of indivisible funds is the most important condition for the development of the socialised sector of the collective farms and the increase of collective farm wealth.

The capital investments of the collective farms are used for the construction of farm buildings, livestock accommodation, irrigation

and drainage canals, ponds, clearing the land of brushwood, the building of collective farm power stations and other structures. Capital investments of collective farms in their socialised sector, from their own means and with their own labour, excluding expenditure on expanding the herd, amounted to about 40 milliard roubles in 1946–50, and 52 milliard in 1951–4.

Apart from this, the collective farms spent more than 11 milliard roubles in 1946–50 and 6 milliard in 1951–4 on increasing the number of socially-owned cattle and poultry.

The collective farms, as large-scale socialist enterprises, cannot exist and develop from hand to mouth; they require planned guidance of their economy.

The planned development of the socialised sector of the collective farms along a path of steady advance is the basis for the growth of the material and cultural standard of life of the collective farmers. Forming as they do part of the system of socialist economy, the collective farms must by all-round development of their socialist sector increase to an ever-growing extent their production for the market, in quantities adequate to meet the demand of the towns and industrial centres, foreign trade and the formation of reserves. Long-term planning is carried out in the collective farms, aimed at contributing to the solution of the national economic tasks by a sharp rise in agricultural production in the shortest possible time, and annual plans are drawn up accordingly.

The point of departure in State planning of collective farm production is the planning of production of surplus agricultural produce which passes out of the collective farms' control into the disposal of the State.

The surplus (marketable) production of the collective farms grows with the growth of the socialised sector. The planned guidance of agriculture envisages the need for more productive use of the land. The most important economic index of the results of the collective farms' economic activity is the obtaining of the maximum amount of gross product of agriculture and stockraising per hundred acres of agricultural land—arable, meadow, pasture—and per work-day worked.

The State plan for the development of agriculture lays down the amount of produce of arable and livestock farming to be rendered to the State in the form of compulsory deliveries, payment in kind for the work of the M.T.S., contracting and purchases. It lays down for the M.T.S. the amount of tractor

work to be done on the collective farms. The collective farms must plan, with the participation of the M.T.S., a level of agricultural production which will completely ensure the fulfilment of the planned tasks of delivery and sale of produce, both arable and pastoral, to the State, as well as covering the needs of the socialised sector of the collective farms and those of the collective farmers. Thus, the collective farms determine according to their own judgment the size of area to be sown to particular crops, the amount of the yield to be aimed at, the head of cattle by species and the productivity of stockbreeding, and the system of agricultural and veterinary measures to be adopted. The plans for sowing the various crops and the plans for stockbreeding are discussed and decided at general meetings of collective farmers.

This procedure in planning helps to enhance the initiative of the collective farmers in getting the maximum amount of produce from each acre of land in the collective farm's charge. It also strengthens the responsibility of the collective farms and the M.T.S. in relation to the delivery of agricultural produce in the necessary quantity to the State.

The planning procedure described also has the function of increasing the economic initiative and incentive of the collective farmers and M.T.S. workers in relation to the development of the non-specialised economy of the collective farms, taking into account the natural and economic conditions of the various parts of the country.

The carrying on of a *non-specialised* economy is one of the great advantages of socialist agricultural enterprses. A non-specialised economy permits a rational combination of various branches of agricultural production, especially arable and livestock farming, and the obtaining of the maximum amount of produce from each acre. In collective farms which correctly combine (taking into account the natural and technical conditions that exist in the various parts of the country) the production of grain, industrial crops, fodder and vegetables, and stockbreeding, the labour force is employed more fully and evenly through the whole year, higher indices of labour productivity are obtained, and the economy pays better. Financial resources become available to non-specialised farms more regularly during the course of the year, which enables them to find in good time the money for economic measures which they wish to put into effect.

A non-specialised farm does not contradict but presupposes specialised regions and districts of the country and particular farms specialising in branches, crops and kinds of stock. The correct conduct of a socialist agricultural enterprise excludes both the universalism of small peasant economy, in which a variety of crops are cultivated, mostly for the peasant's own consumption, and the one-sided development of capitalist farms, which usually specialise in one crop (monoculture).

The *specialisation* of socialist agriculture means, first, fuller utilisation of the specific natural and economic conditions of each region and district of the country for planned production of a particular product needed by society (e.g., cotton in the Central Asian Republics of the U.S.S.R.); second, correct combination of the basic and supplementary branches of the economy, especially arable farming and stockraising, grain, technical and vegetable crops; and, third, the production of such agricultural crops and breeding of such types of stock, in accordance with local conditions, as will ensure the maximum amount of high-quality production with the least expenditure of labour and resources per unit.

The planned distribution of agricultural production throughout the country must also conform to this requirement. Any stereotyped distribution of crops or kinds of stock or the application of uniform crop rotations and agrotechnical methods, regardless of the special features of the natural and economic conditions of a district, is contradictory to the principles of rational conduct of planned socialist economy.

Socialist Forms of Organisation of Labour in Collective Farms. The Work-day

The socialised sector of the agricultural artel is conducted on the basis of the collective labour of the collective farmers.

The permanent *production team*, formed by the collective farm management to work in one branch or another of the socialised sector, is the main form of labour organisation in collective farms.

Production teams exist for: field crops, stockbreeding, fodder storage, vegetable growing, fruit farming, building and other purposes.

The *field team* is allotted, in the fields of the collective farm's rotation, tracts of land of a size to ensure the highly productive use of tractors, combine harvesters and other M.T.S. machines in

carrying out all agricultural work. Draught animals, the necessary agricultural equipment and farm buildings are provided for each field team. *Links* are formed within the field team for the more productive use of manual labour in cultivating crops which require more arduous effort. *Links* are directly subordinated to the field teams' leader. The June, 1954, Plenum of the Central Committee of the Communist Party of the Soviet Union recognised that it was necessary, while strengthening the production teams in the collective farms, at the same time to encourage the organisation of links for specially cultivated and industrial crops, and to help them in every way to obtain large harvests on the fields for which they were responsible.

Livestock teams are organised for work in the collective farm livestock departments. Usually one department with the stock buildings and means of production necessary for its upkeep is provided for each livestock brigade.

Ensuring the smooth co-operation of M.T.S. and collective farms is an important condition for the most effective use of the complex M.T.S. machinery. This is achieved by linking the work of the M.T.S. tractor team with that of the collective farm's permanent production teams. Each M.T.S. tractor team serves one particular collective farm team or several teams, for a number of years.

In agreement with the character of co-operative collective farm property, the requirements of the economic law of distribution according to work done is carried out in collective farms by means of the work-day. *The work-day* is a measure of the expenditure of the labour of collective farmers in the collective farm's socialised sector, and at the same time determines the share of each collective farmer in the collective farm's income. The expenditure of the labour of collective farmers in the socialised sector is reckoned in work-days; the collective farm distributes among the collective farmers that part of its income which goes to personal consumption according to the work-days earned.

A standard of output per working day, achievable by a collective farmer working conscientiously, and taking into account the condition of the draught-animals, machines, and the quality of the soil, is fixed for each job on the collective farms. The *rate in word-days*, depending on the skill required of the worker, the complexity, arduousness and importance of the particular job for the artel, is determined in keeping with the output standard. The fulfilment of the daily standard output on comparatively simple field work is rated at one work-day. All other forms of labour in the collective farm are assessed below or above this. In the course of a working day a collective farmer can be credited with one work-day, half a work-day or several work-days, according to the form of labour

involved and the degree of fulfilment or overfulfilment of the standard output. Consequently, a work-day is not the same as a working day. The collective farms plan their work-day expenditure by separate branches and agricultural crops. They maintain strict supervision of the correct crediting of work-days according to the work done by each team, link and individual collective farmer.

Thus the work-day takes account of both the quantity and the quality of the collective farmer's labour in various jobs, and this makes possible the correlation of various types of work in the collective farm. Skilled labour is rated higher in work-days than unskilled, more intensive labour higher than less intensive. The work-day also makes possible the correlation of labour of different productivity in similar jobs. A collective farmer overfulfilling the output standard is allotted correspondingly more work-days. In the work-day the labour of an individual collective farmer is expressed as part of the total direct social labour in the collective farm. In this way the personal labour of each collective farmer in collective farm production receives its social evaluation. The work-day reflects socialist production relations between the collective farmers within their particular collective farm, and is an important economic instrument for organising collective farm production.

In so far as the existence of two basic forms of socialist production leads to the existence of commodity production and circulation, the collective farms cannot confine themselves to reckoning up the expenditure on collective farm production in terms of work-days. They have their finances: they calculate collective farm output and income in money terms, and accumulate money; payment of work-days in the collective farms takes place not only in kind, but also in cash.

In the work-day are expressed the principles of equality in socialist society: the freeing of all workers from exploitation, the obligation of everyone to work, and the right of everyone to be remunerated for his labour according to its quantity and quality. The work-day secures equal pay for the labour of men and women. The collective farm system has put an end to the age-old economic inequality of the peasant woman. Only in the collective farm has the peasant woman acquired the opportunity of standing on an equal footing with the man.

Thus the work-day is a new economic category, born of the collective farm system.

The Output of Collective Farm Production. Collective Farm Income

The output produced in the socialised sector of the artel constitutes group, co-operative collective farm property. At the same time, not only the collective farms, but also the M.T.S., which carry out most important jobs in the collective farm, participate in the creation of collective farm output and income.

The *gross production of a collective farm* means the entire amount of the agricultural produce and raw material produced in its socialised sector during a year. The size of the value, or of the social costs of production of collective farm production for a given year is determined by the total amount of socially-necessary labour, both living and congealed, embodied in this production, including the expenditure incurred in the previous year towards the harvest of the year in question (opening-up and cultivation of fallow land, sowing of winter crops, first ploughing of ploughlands, etc.).

In connection with the role played by the M.T.S. in collective farm production the labour of industrial workers, expended in producing tractors, combines and other agricultural machines, spare parts for these, fuel, lubricants, etc., forms an ever-increasing share of the value of collective farm production. The share contributed by the skilled labour of the engineering and technical personnel of the M.T.S. is also increasing.

The constituent parts of the value of collective farm production are, first, the value of the used-up means of production of the collective farm and M.T.S.; second, the value of the product for themselves created by the collective farmers and M.T.S. workers; third, the value of the product for society created by the collective farmers and M.T.S. workers.

Owing to the peculiarities of co-operative collective farm property and to the participation of the M.T.S. in the creation of collective farm production, the formation, replacement and distribution of the value of the production of a collective farm takes place in a different way than in a State enterprise, e.g., in a State farm. It is necessary to distinguish the expenditure of labour and resources carried out directly by the M.T.S. from the expenditure of labour and resources carried out directly by the collective farm.

One of the most important indices of the results of socialist management in a given collective farm and the M.T.S. which serves it is the *costs of collective farm production.* In calculating the costs of collective farm production there must be taken into account the value of the means of production of the collective farm and of the M.T.S. used up per unit of production, and the expenditure of resources on payment for the labour of the collective farmers and the M.T.S. workers.

The value of the M.T.S. means of production used up, the expenses of paying for the labour of the M.T.S. workers, and also the net income created by the M.T.S. workers in assisting collective farm production, are replaced by the agricultural produce which the collective farm hands over to the M.T.S. in the form of payment in kind. This part of collective farm production in kind passes from the collective farms to the State without assuming commodity form, without any buying and selling. It constitutes part of the so-called extra-rural turnover and is taken into account in calculating the degree to which collective farm production is marketable.

The collective farms make good the means of production they have themselves expended on securing their output mainly in kind, reproducing them in their socialised sector. Such means of production include seeds, livestock, fodder, organic manure, etc. The collective farms replace a certain part of the expended means of production by purchases from State and co-operative organisations. Such means of production include: vehicles, small-scale equipment, small motors, simple machines, artificial manures, pedigree stock, building materials, etc.

The labour of the collective farmers newly expended on collective farm output creates the *gross income of the collective farm.* Gross income is the result of the labour of collective farmers for themselves and of their labour for society. That part of the gross collective farm income which is created by labour for themselves (expended by the collective farmers in their socialised sector) forms the *personal income of the collective farmers,* distributed according to work-days. In addition to this, the collective farmers obtain personal income from their subsidiary home plots. That part of the gross income which is created by the labour of collective farmers for society (for the socialised sector of the collective farm and for society as a whole) forms the *net income of the collective farm.*

The size of the net income depends above all on the level of productivity of labour attained. The productivity of labour in agriculture is determined by a variety of conditions. Decisive significance in the raising of the productivity of labour belongs to the mechanisation of agricultural work, fuller and more efficient use of machines and tractors and of the collective farm's own means of production, correct organisation and payment of labour, the development of socialist emulation, and the introduction into production of the achievements of agronomy and veterinary science and of the experience of advanced people in the field of socialist agriculture. As V. I. Lenin showed, in the last analysis all differences in the economic organisation of agricultural enterprises, their technique and so on, are summed up in the yields obtained. The results of economic activity in the field of stockbreeding find expression in the amount of meat, milk, wool and other animal products obtained.

On the basis of the growth in the productivity of labour, of economy in the expenditure of living and congealed labour per unit of production, the costs of collective farm production must systematically decline. The higher the productivity of labour in collective farm production, the lower the productive expenditure on means of production and payment of labour per centner of grain, cotton, flax, beet, meat, milk, wool and other forms of agricultural produce, and the better the socialised economy pays. Comparison between the production outlay and the results obtained, expenses and income, observance of a strict régime of economy of embodied and living labour, struggle against every kind of unnecessary and unproductive expenditure, a proper organisation of the financial side, accounts and bookkeeping—these are the conditions necessary for correct leadership of the development of the socialised sectors of the collective farms along the road to further progress.

Calculating the outlay of collective farms and M.T.S. on collective farm production is very important for determining the economic profitability of the production of particular products, for planned, rational distribution of agricultural crops and kinds of stock as between parts of the country, and for determining the results of the economic activity of the collective farms and M.T.S., the degree to which they are paying (their profitability).

Collective farm income is divided into income in *kind* and in

money. Collective farmers receive part of the remuneration for their labour in kind (grain, vegetables, fruit, meat, milk, and so on), the other part in money. The increase in the socialised funds of the collective farms takes place partly in kind (seed, fodder, etc.) and partly (the indivisible fund, etc.) in money. Under conditions of commodity economy the money incomes of the collective farms play a big part in the development of collective farm production and the growth in the welfare of the collective farmers. The money incomes of the collective farmers are formed by selling their marketable surplus to the State and the co-operatives through the system of State procurement and purchase and also through direct sale to the population on the collective farm market.

A considerable part of collective farm commodity production becomes available to the State as *State procurements* of agricultural produce, which include compulsory deliveries and contract purchases. State purchases through compulsory deliveries is made in the case of grain crops, livestock produce, potatoes and a number of other vegetable crops. State purchases by means of contract are made predominantly in the case of industrial crops.

The consistent application of the principle of the material interest of collective farms and collective farmers in increasing agricultural output is the basis of the policy of the Communist Party and the Soviet State as regards compulsory and voluntary deliveries of agricultural produce to the State. This is achieved by establishing firm prices for compulsory deliveries and voluntary sales, which ensure the reimbursement of expenditure on the production of agricultural produce and the growth of collective farm cash income and also by applying firm quotas of compulsory deliveries for each district.

State procurements in the form of compulsory deliveries of agricultural produce by the collective farms are carried out on the basis of the *acreage principle*, i.e., in accordance with the quantity of land secured to the collective farm. Each collective farm is obliged to sell to the State as compulsory deliveries a definite quantity of the output of crops per acre of arable, and of livestock produce per acre of ground area. The acreage quotas of compulsory deliveries are permanent. The progressive significance of such a system of compulsory deliveries of agricultural produce lies in the fact that it raises the interest of

the collective farmers in developing their socialised cultivation and livestock breeding, and in the fullest use of the socialised land of the collective farm.

With fixed, permanent quotas of compulsory deliveries, the collective farms are assured that, after fulfilling their obligations to the State, they can freely at their own discretion dispose of the collective farm produce.

In accordance with the decisions of the September, 1953, Plenum of the Central Committee of the Communist Party of the Soviet Union, and the subsequent decisions of the Communist Party and the Soviet State, the incorrect practice, which laid down exaggerated quotas of compulsory deliveries for the more advanced collective farms, and thus reduced the material interest of collective farms and farmers in increasing output, was abolished. Quotas of compulsory deliveries to the State have also been reduced for a number of agricultural products. New fixed district quotas have been laid down for these deliveries, which cannot be raised by the local authorities.

Compulsory deliveries of agricultural produce by collective farms to the State are not a tax in the economic sense of the word since the State pays for this produce. The Soviet State plans and lays down firm *procurement prices* for agricultural produce acquired by centralised statutory deliveries. In planning these prices the State takes into account the value of each agricultural product, its significance for the national economy and the economic advantage of its production for the collective farm. At the same time these prices for compulsory deliveries are laid down at a level which ensures the handing over to State funds of part of the collective farm net income to meet the general State needs. State income from the sales of produce received through compulsory deliveries is used for public needs: for the development of socialist industry, which supplies agriculture with machines and fertilisers, on education, on health, etc. For some agricultural produce the State, in addition to the fixed price, grants cash bonuses and organises a return sale of grain, manufactured goods and foodstuffs. Moreover, some of them are sold at preferential State prices, which are lower than those usually charged.

Apart from compulsory deliveries and contract purchases of industrial crops, the State acquires agricultural produce from collective farms and collective farmers in the form of *State*

purchases, at *purchase prices* which exceed those paid for compulsory deliveries. In this purchasing of agricultural produce the State carries on return sales to the collective farms and collective farmers of manufactured goods.

Finally, the collective farms sell to the population a certain part of their saleable output on the collective farm market, at prices formed in this market under the influence of supply and demand.

Compulsory deliveries to and voluntary purchases by the State are a most important source of the collective farms' money income, which is used to supplement the indivisible fund, to pay the work-days of the collective farmers, and for other purposes.

The level of compulsory and voluntary purchase prices is of very great importance in connection with the raising of the material incentive of the collective farms and collective farmers to develop collective farm production. As has been mentioned, the law of value, though not the regulator of socialist production, exercises an influence on the formation of the prices of agricultural products. The prices at which marketable produce is sold have a strong bearing on the state and development of collective farm production and its particular branches. These prices must make good the outlay on production and guarantee a certain degree of profitability. If these requirements of the law of value are ignored, the material incentive of the collective farms and farmers to develop one or other branch of the socialised sector may be undermined. Thus, at the September, 1953, Plenum of the Central Committee of the Communist Party of the Soviet Union it was established that the level of compulsory delivery and voluntary sales prices which formerly existed for a number of agricultural products was not stimulating the collective farms and collective farmers to increase their production. The necessity of raising these prices in keeping with the requirements of the law of value arose.

With a view to increasing the personal material interest of collective farmers in a further improvement in agriculture, compulsory delivery and voluntary sale prices were considerably raised, quotas of compulsory deliveries reduced, the share of purchases at the higher purchase prices increased, and the agricultural tax on the personal subsidiary holding of the collective farmers reduced. The growth of the marketable production of agriculture and the increase mentioned above in the prices paid by the State for agricultural

produce led to a considerable increase in the money incomes of the collective farms and farmers. They received for their produce delivered and sold to the State, in 1953 12 milliard roubles more, and in 1954 25 milliard roubles more, than in 1952.

The main way to further a great improvement in all branches of agriculture consists in raising the level of collective farm production, increasing gross and marketed output and reducing expenditure per unit of output.

Differential Rent in Socialist Economy

The economic and natural conditions for the formation of differential rent exist in the collective farms. The existence of differential rent in the collective farms is bound up with the fact that, first, the nationalised land, as the property of the whole people, handed over to the collective farms gratis for perpetual use, is used directly by separate collective farms, based on co-operative collective farm ownership, which is of a group character, and second, that under conditions of commodity economy commodities that are produced under different conditions of productivity of labour are sold at the same price. Collective farm lands differ among themselves in fertility, situation and the degree of productive utilisation, which is mainly connected with the extent to which agriculture has been mechanised. In so far as the quantity of the best land is limited, socialist society is compelled to work also the poorer land in order to satisfy its requirements in respect of agricultural produce. The labour of collective farmers, applied in different conditions of production, results in different productivity. Collective farms with different levels of labour productivity produce a different quantity of agricultural produce per acre. This means that they expend a dissimilar quantity of labour per unit of output.

Collective farms applying their labour on the best land, under the most advantageous conditions of production and sale, create, compared with collective farms working poorer land under less advantageous conditions, additional income. This income in its natural form consists of various agricultural products: grain, cotton, meat, milk, wool, etc. One part of this additional income is expended in kind, the other part is realised in cash.

Since the total output produced by the collective farms is collective farm property, the additional income which is the result of higher productivity of labour, for example, on better, more fertile land, also becomes the property of the individual collective farms.

The additional income of the collective farms realised as money is connected with the peculiarities of price formation in agriculture. The total additional income created in the collective farm and expressed in money form, is the difference between the social production costs (or social value) of the agricultural produce and the individual production costs (or individual value) of that produce. The extent to which this difference is secured by the collective farms depends on the level of prices.

The scarcity of the best land cannot but influence the price level of agricultural produce. The need to ensure that cultivating one crop or another will be profitable, not only in the best but also in the worst production conditions, is taken into account when prices are planned.

The output produced in collective farms in *different* conditions of labour productivity is realised at *the same* prices for compulsory deliveries and voluntary sales for the zone concerned, or at the same prices on the collective farm market. Consequently, the collective farms with higher labour productivity obtain additional money income.

The *differential rent* of the collective farms is the additional net income, in kind or in money, created on the collective farms which have the most fertile, or more conveniently disposed, portions of land, as well as by those which use the land more productively, compared with the collective farms using poorer portions of land or more remote land, or utilising it less productively.

In socialist economy differential rent is fundamentally different from differential rent under capitalism. It is not the consequence of exploitation, but is the result of the collective labour of collective farmers working for themselves and for their socialised sector, as well as the result of the labour of the workers in the M.T.S. which serve the collective farms. In socialist economy it does not assume the form of ground-rent, and it accrues not to a class of large landowners, but to the collective farms, collective farmers and also to the Socialist State.

Two forms of differential rent, first and second, should be distinguished.

Differential Rent I is the additional net income created by collective farms which have been endowed with the best land, and also by collective farms situated closer to their points of disposal. Other conditions being equal, at a similar level of mechanisation, with one and the same system of tillage, collective farms which dispose of the best land obtain more produce per acre than collective farms situated on poorer land. In consequence of higher productivity of labour in collective farms having at their disposal the best lands, these collective farms accordingly obtain higher income.

Collective farms situated nearer to railway stations, wharves, State purchasing offices, towns, and other points of disposal expend less labour and resources on transporting their produce. Therefore expenditure per unit of output in these farms is lower than in collective farms situated at a distance from their points of disposal. Collective farms with these advantages in their situation also obtain additional income.

Differential Rent II is the additional net income created in collective farms maintaining a more intensive socialised sector, as compared with collective farms that maintain a less intensive socialised sector.

Collective farms with a higher level of mechanisation, raising soil fertility by carrying out land improvement, the application of fertilisers, etc., and with a larger quantity of highly productive stock, i.e., maintaining a more intensive economy, obtain greater output per acre of land than collective farms with a less intensive economy. As a consequence of their higher productivity of labour, the intensive economy expends less labour per unit of output and a higher income in kind and money is obtained. This is an important stimulus for the collective farms to intensify agriculture.

The distribution of differential rent under socialism has the following peculiarities. In so far as differential rent I, received in collective farms, is not connected with additional outlay of means of production and labour, to that extent it must be applied to the needs of the people as a whole. The "Fundamental Law on Socialisation of the Land", signed by V. I. Lenin, declared: "Surplus income received from the natural fertility of better pieces of land and also from the more

advantageous location of pieces of land in relation to markets, shall pass to the disposal of the organs of Soviet power, to be used for public needs." (*The Agrarian Policy of the Soviet Power, 1917–18.* Documents and Materials, U.S.S.R. Academy of Sciences, Russian edition, 1954, p. 137.)

Since differential rent II arises as a result of intensification of agriculture, thanks to additional investment of means of production and labour by the collective farms and M.T.S. in one and the same area of land, it must be distributed between them in proportion to the outlay they have made.

Part of the differential rent received by the collective farms goes to develop their socialised sector and to raise the material and cultural standard of life of the collective farmers. Part of differential rent passes into the hands of the State for public requirements, through the following channels. First, it becomes available through payment in kind to the M.T.S., in so far as additional net income created by the labour of the M.T.S. workers is embodied in it, while rates of payment in kind differ considerably as between zones: as well as because when the harvesting plan is overfulfilled the M.T.S. receives part of the harvest collected in excess of plan. Secondly, through the system of compulsory deliveries to the State, since prices for these deliveries presuppose the redistribution of part of the net income of the collective farms for the needs of general State expenditure, while the quota figures for compulsory deliveries of produce by the collective farms to the State vary according to the conditions of production in various districts. Thirdly, in some part through the income tax on collective farms, since the size of the tax depends on the level of collective farm income.

Distribution of Collective Farm Output and Collective Farm Income. Growth of well-being of the Collective Farm Peasantry

Forms of distribution of output different from those of State enterprises exist in the collective farms, in keeping with the special features of co-operative collective farm property.

The collective farms are an inseparable part of socialist national economy. The collective farm peasantry is vitally concerned with the flourishing of the economy and culture of socialist society and in strengthening its might. The State

provides the collective farms with great material help, both by serving collective farm production, and also in the all-round development of the culture of the collective farm village. Therefore, the timely fulfilment of their obligations to the State is a most important task of the collective farms.

In accordance with the Statute of the agricultural artel, the collective farms sell part of their harvest and livestock products to the State at fixed, planned prices as compulsory deliveries and as contract sales. The collective farms pay the State in kind for work carried out by the M.T.S. Out of the cash income they have obtained the collective farms repay money loans to the State, and pay interest on them. The collective farms also pay a small income tax, and pay for insuring their property. The timely and complete fulfilment by the collective farms of their obligations to the State ensures the correct combination of the interests of the individual collective farms with the interests of the State and of the whole people.

The *social funds* of the collective farm, which are created in kind and in cash, are of great significance in securing an uninterrupted rise in collective farm production and the growth of the welfare of the collective farmers.

The social funds, set aside to *make good* the expenditure of collective farm means of production, take the form of *basic seed and fodder funds*. As has already been said, a considerable part of the expended collective farm means of production are directly made good out of collective farm production, while some means of production are purchased for cash.

After the replacement of expended means of production, the collective farms use the gross income that remains for social funds of accumulation and consumption, and for distribution among the collective farmers according to work-days earned.

Social *funds of accumulation* in the collective farm are formed out of net income. The increase of collective farm accumulation funds takes place primarily by annual deductions from money income for the indivisible fund, except for that part which is set aside for depreciation. Apart from this, the direct investments of the labour of collective farmers in erecting farm buildings, in making agricultural equipment for the collective farm's needs, in constructing ponds and reservoirs, in increasing the herd of socially-owned stock, improving its quality, etc., contribute to the growth of indivisible funds. Part of the net

income goes to accumulation in kind. This includes seed and fodder, set aside to increase the seed and fodder funds in connection with the expansion of the area under cultivation: the growth of the number of socially-owned stock and the raising of its productivity, as well as *insurance funds* (seed and fodder) created in case of bad harvests or lack of fodder.

Also of great significance for raising the welfare of the collective farmers are the *social consumption funds* created out of the net income in collective farms—the *food fund* in case of bad harvests; the *assistance fund* for the disabled, those temporarily unable to work, for needy families of servicemen, for the upkeep of crèches, and for orphans; the *cultural fund*, i.e., the fund expended on serving the cultural and everyday needs of the collective farm village (training of collective farm personnel, organisation of crèches, etc.).

Remuneration of labour in the collective farms is founded on principles which secure the *personal material interest* of the collective farmers in increasing the production of grain, livestock and other agricultural produce.

After fulfilling all its obligations to the State, and forming the statutory social funds, the collective farm divides all the remaining produce and its cash income between the members of the artel according to work-days earned. Income received by the collective farmers on account of their work-days is not subject to any tax.

The income received from the socialised sector of the artel by each collective farmer depends on two quantities: (1) the number of work-days he or she has earned; (2) the size of remuneration per work-day. The number of work-days earned in the course of a year is determined by the work of *each* collective farmer. The size of remuneration per work-day, i.e., the quantity of produce and money which a collective farmer receives for one work-day, depends on the work of *all* the members of the collective farm. The better the collective farm works as a whole, the more successfully its socialised sector develops, the higher is both the total collective farm income and also the size of that part of it which is distributed according to work-days earned. Part of the net income of the collective farm which remains after fulfilment of obligations to the State, and the formation of the statutory social funds, also goes for distribution according to work-days. Apart from this, the

income of the collective farmers from the socialised sector also increases through the social consumption funds which have been mentioned. All this creates a material interest of each collective farmer in developing the socialised sector of the collective farm.

In order to fulfil more consistently the requirements of the economic law of distribution according to work, a system of labour remuneration has been established in the collective farms under which collective farmers achieving higher production results obtain higher rewards for their labour, compared with collective farmers achieving relatively lower results.

Additional remuneration of labour (in kind or money) for overfulfilment of the plan laid down for teams and links, in respect of crop yields and productivity of socially-owned livestock, is an important means of raising the personal interest of collective farmers in the results of their labour.

For example, collective farmers in the field teams receive as an additional payment, for overfulfilment of the planned yield on the total area of grain crops for which their team is responsible, from a quarter to a half of the grain gathered by the team above that laid down as its planned harvest.

Additional crediting to teams and links of a supplementary number of work-days, for overfulfilment of the planned yield for agricultural crops, and the *deduction* of a certain part of their work-days for underfulfilment of this plan, are also practised.

Remuneration of the labour of collective farmers working in collective farm livestock departments depends on milk yield, wool clip, birth and rearing of young animals, increase of live weight of store cattle, etc.

Of great importance in raising the material incentive of the individual collective farmers is the practice of regularly giving them *advances* in cash and in kind during the year, against the payments due to them for work-days.

Thus the personal interests of the collective farmers and the social interests of the collective farm are correctly combined in the work-day and in the system of distributing collective farm income. The measures taken by the Communist Party and the Soviet State to increase the material interest of collective farms and collective farmers in a further advance of agriculture strengthens still more the union of the working class and collective farm peasantry—the foundation of the might of the Socialist State.

Apart from the socialised sector of the collective farm, which is of decisive significance, a subsidiary *personal holding of collective farmers* near their homes exists in the agricultural artel. In this way the correct combination of the social and personal is also achieved in the artel, with the subordination of the latter to the former. Any violation of the principle of correct combination of the social and personal in collective farms undermines the basis of the agricultural artel, and of the alliance of the working class and the peasantry.

Money income of collective farms rose from 5·7 milliard roubles in 1933 to 20·7 milliard roubles in 1940, to 49·6 milliard roubles in 1953, and to 63·3 milliard roubles in 1954. In addition, the collective farmers obtain money income from their subsidiary holdings near their homes. With the money income obtained from the socialised sector and their personal holdings, collective farmers buy manufactured goods at the planned prices of State and co-operative trade, which are systematically being reduced.

The appearance of the Soviet countryside has fundamentally changed on the basis of the collective farm system. In place of the old village a new one has arisen, with public farm buildings, power-stations, schools, libraries, clubs and children's crèches. The Soviet peasant is a peasant of a new type, possessed of the benefits of science and culture. Wide sections of the Soviet intelligentsia—engineers, doctors, agronomists, veterinary workers, teachers, organisers of large-scale socialist production —have emerged from the ranks of the collective farm peasantry. Many collective farmers have become expert in advanced agricultural technique, have become masters in the art of securing high crop yields and highly productive stockbreeding.

These facts testify to the extensive cultural revolution which has taken place throughout the Soviet countryside. The total number of students in elementary (seven-year), and secondary (ten-year) schools in the countryside increased from 6·1 millions in 1914–15 to 21·1 million in 1951–2. In 1952 29 million persons were studying in the countryside at all forms of education (including the training, elementary and advanced, of those in mass professions, specialists, and so on). On January 1, 1955, there were 275,000 cultural and educational institutions in the countryside: libraries, clubs and cinemas. In the Soviet village not only has obligatory elementary education been given effect, but the task of general seven-year education is being successfully carried out.

Development of the State Farms and Ways of Raising their Profitability

The State farms are, by their social and economic nature, the highest form of organisation of socialist agriculture. The State farms are State socialist enterprises producing grain, meat, milk, wool, and various industrial crops. All their means of production, as well as their output, are public property.

The State farms, as the largest agricultural enterprises, have the possibility of using to the utmost modern agricultural technique, applying rational division of labour, economising in expenditure on farm buildings, equipment, etc.

State farms are equipped with modern agricultural machinery, which makes possible the mechanisation of almost all production processes and creates the necessary conditions for achieving high labour productivity. The highest level of mechanisation has been achieved in grain farming. Complex mechanisation of all branches of production is being effected in the State farms. The sizes of State farms are determined by their particular branch of production, the economic and natural conditions of the districts where they are situated, the level of technique achieved and the necessity of all-round and productive utilisation of each acre of land. The most important economic index of the size of a State farm, within the limits of a particular production trend, is the size of its gross and marketable production. The specific sizes of State farms differ in different parts of the country.

The high marketable output of State farms is one of their great advantages. The marketable output of grain in the grain State farms averages about 70 per cent. The State farms supply the State with a considerable quantity of agricultural produce.

The immense possibilities of the State farms, however, are quite insufficiently used. There are still not a few State farms which, as a result of bad guidance, use great tracts of land wastefully, produce little grain, milk, meat or other produce and run their affairs at a loss. Overcoming these faults, and skilfully using the advantages of the State farms as highly mechanised, large-scale socialist enterprises will make it possible sharply to increase output and delivery to the State of agricultural produce in a very short time.

In the development of socialist agriculture in the period of the gradual transition from socialism to communism the part played by the State farms in supplying the country with foodstuffs continues to increase.

The planning procedure for State farm production laid down by the State, determining as it does the amount of marketable produce rendered to the State as the basic index, releases the initiative of the State farm workers to improve production by intensifying it so as to get the greatest possible amount of produce from the land with the least outlay of labour and resources.

The State farms are capable of becoming highly productive, highly profitable farms, acting as an example of the rational organisation of agricultural production, high yields of agricultural crops and productivity of livestock.

Complete and productive utilisation of their *land funds* is of the greatest significance in raising the profitability of State farms.

The most rational basic production trend of the State farm, i.e., its specialisation on the production of grain, meat, milk, wool, cotton, flax, or beet, etc., is determined by the natural and economic conditions of the district. For specialised State farms one of these branches is basic. In addition to the basic branches, all-round development of additional and subsidiary branches is required: vegetable growing, fruit growing, viticulture, poultry farming and bee-keeping. The degree of development of each additional and subsidiary branch is determined by taking into account the possibility of securing a high marketability and profitability of these branches of the economy.

Narrow specialisation on the production of any one crop, or the breeding of any one form of stock, does not afford the opportunity for making productive use of land, leads to losses in farming and harms the State. Highly mixed, varied and well-developed State farm production, while preserving specialisation in the basic branches, ensures the achievement of the maximum quantity of agricultural produce per acre of arable, meadow and pasture. It is especially important that State farms should provide their own seeds for their sown areas, and fodder for all their stock.

Increasing gross and marketed production per acre of agricultural land means the reduction of *production costs* and the

raising of the profitability of the farm. State farms, being large-scale highly mechanised enterprises, can raise agricultural produce with least labour expenditure and supply the country with it at the lowest prices. The reduction of the production costs of State farms is achieved by further mechanisation of production, raising the effective use of the machine and tractor pool, improved organisation of labour, the application in all branches of State farm production of the achievements of agricultural science and the experience of the best workers, the introduction of complex agronomic and veterinary measures, the struggle against losses and the observance of a régime of economy. All this leads to raising the productivity of labour, which is reflected in increased yields of agricultural crops and productivity of livestock.

State farms work on the basis of economic accounting. The level of profitability of a State farm is determined by the net income it obtains. The net income *created* in the State farm is the difference between the cost of production and the value of the agricultural output. The net income *realised* by the State farm is the difference between the cost of production and the price of the agricultural output sold by the State farm to the State or, to a limited extent, sold on the market. Part of the net income created in the State farm is realised by the procurement organisations and in the sale of State farm produce to the population.

With a view to increasing the material interest of State farms in developing production, the State subsidy for State farms which formerly existed was abolished in 1954, and new delivery prices were introduced for grain, oil crops and the basic forms of livestock produce, so as, on the basis of reduced costs, to ensure that each State farm could make a net profit. The State farms deliver the produce of their main branches of agriculture to the State at delivery points and at fixed delivery prices. The State farms sell the produce of their subsidiary branches, including what is processed within the farm, directly to the consumer at State retail prices. The abolition of the State subsidy to the farms, and their adoption of the method of economic accounting, is a most important economic measure in the sphere of State farm construction, and lays a firm basis for the rational running of their economy.

The net income remaining at the disposal of the State farm, and accumulated in money, is spent on strengthening and expanding its farming and on improving the cultural and social

amenities for State farm workers (children's institutions, clubs, rest homes and sanatoria, etc.). Special funds are formed for this: the *fund for strengthening and expanding the economy of the State farm, the insurance fund, the enterprise fund.*

The development of State farm production depends, to an enormous extent, on strengthening socialist forms of labour organisation and the consistent application of the socialist principle of payment according to work done.

The *permanent production team* is the basic form of labour organisation in the sectors and livestock departments of the State farm. In field cultivation there are *tractor field teams* which are allotted portions of land in the fields with crop rotation, tractors, combines and other agricultural machines, means of transport, and work equipment. Special links are formed in the team to grow those agricultural crops production of which is inadequately mechanised. In the livestock departments of State farms *livestock teams* are formed, to which are allotted stock, the equipment necessary for its care, livestock buildings, etc.

The principle of material interest of the State farm workers in raising the yield of agricultural crops, productivity of livestock and profitability of the farm is applied through a system of piece-rates paid in money. *Money bonuses* are granted for above-plan yields of agricultural crops, for high indices of livestock productivity: milk yield, wool clip, birth and rearing of young animals, etc., Those working at combine-harvesting (combine operators, their assistants, tractor drivers and others) receive, apart from money wages, *wages in kind* and supplementary grain *bonuses in kind.* Money bonuses are laid down for leading State farm workers and specialists who fulfil and overfulfil production plans and delivery of produce to the State.

The material interest in the results of their labour, both of the State farm as a whole, and also of its individual workers, is a most important condition for the uninterrupted growth and improvement of State farm production.

BRIEF CONCLUSIONS

(1) The socialist system of agriculture, in the form of collective farms, M.T.S., and State farms, is the highest and most progressive form of organisation of agricultural production.

Agriculture in socialist society is called on to secure the all-round satisfaction of the population's requirements in foodstuffs and those of industry in raw material. The raising of labour productivity in socialist agriculture is expressed in the greatest output of produce per acre of agricultural land, with the least expenditure of labour and resources per unit of produce.

(2) Machine and tractor stations are the industrial material and technical base of collective farm production and the support points for guidance of the collective farms by the Socialist State. The all-round raising of the yield of all agricultural crops in collective farms, the securing of an increase in the number of socially-owned stock, while simultaneously raising its productivity, the increasing of gross and marketable output of cultivation of the soil and stockbreeding in the collective farms served—these are the basic tasks of the machine and tractor stations. Machine and tractor stations play a decisive part in developing collective farm production.

(3) The agricultural artel is the only correct form of collective farm in socialist economy. The collective farms, as socialist co-operative enterprises, are run by the collective labour of their members with the aid of basic means of production owned by the Socialist State, and some means of production owned by the collective farms. In the U.S.S.R. the land occupied by the collective farms has been handed over to them by the State for perpetual use without payment. The Soviet State expends great sums on financing agriculture and satisfying the cultural requirements of the collective farm peasantry.

(4) The socialised sector of the collective farms is the source for the growth of collective farm wealth and the base for the welfare of the collective farm peasantry. In the collective farms the requirements of the economic law of distribution according to work done are met by means of the work-day. The work-day is a particular measure of labour and consumption, arising from the collective farm system, which combines the personal, material interest of the collective farmers with the interests of the socialised sector of the collective farm. The consistent realisation of the principle of the personal, material interest of the collective farmers in raising collective farm production is a necessary condition for carrying out a further advance of agriculture.

(5) Large-scale collective farming makes possible a high income. Additional income received from the collective farms situated on the best land, or the most productively used land, forms differential rent. Differential rent of collective farms falls to the collective farms and farmers, but is also transferred to the State.

(6) The produce and money income of the collective farm, in accordance with the Statute of the Agricultural Artel, go to fulfil the collective farm's obligations to the State, to form its social funds and to remunerate the labour of the collective farmers according to work-days earned. In keeping with the basic economic law of socialism, the collective farm system secures the uninterrupted growth of the material well-being and the cultural standard of life of the collective farm peasantry.

(7) The State farms are very large-scale and highly mechanised State agricultural enterprises, and play an ever-growing part in agricultural production. The State farms work on the basis of economic accounting. The uninterrupted growth of labour productivity and the material interest of the State farms and their workers in the results of their labour—these are the essential conditions for the conversion of all State farms into model, highly productive and profitable enterprises.

CHAPTER XXXVI

TRADE IN SOCIALIST ECONOMY

The Nature and Role of Trade in Socialist Society

The need for trade in socialist society arises from the existence of commodity production and the law of value. In so far as under socialism consumer goods are produced as commodities, the distribution of them, their conveyance to the consumer, inevitably takes place through commodity circulation. The socialist mode of production has its own form of commodity exchange, known in the U.S.S.R. as *Soviet trade*, which differs fundamentally from capitalist trade. Soviet trade is without capitalists. In the U.S.S.R. commodities are sold by State and co-operative enterprises and organisations, collective farms, and collective farmers. The resources of Soviet trading enterprises are socialist property. With the complete predominance of socialist property in all spheres of the national economy, the conditions for the existence of such categories as commercial capital, commercial profits, etc., have completely disappeared in the economy of the U.S.S.R.

In socialist society trade is carried on in accordance with the requirements of the basic economic law of socialism—the satisfaction of the growing material and cultural needs of the working people—in contrast to capitalist trade which, since it is a function of commercial capital, is carried on for the enrichment of the capitalists.

The bulk of articles of personal consumption produced in socialist society goes to the population through trade. By far the greater part of the incomes of the population is spent on the purchase of articles of personal consumption—foodstuffs, clothing, footwear, cultural and household goods. Only a part of these goods are distributed directly, without making use of trade, as for example the distribution of products in kind to collective farmers on account of work-days earned.

The development of trade is very important in providing the working people of town and country with a personal material interest in the results of their labour and in raising its productivity. Soviet trade is an essential prerequisite for the operation

of the economic law of distribution according to work, since the realisation of the money income of the working people takes place through its channels. The various requirements of the working people, according to their incomes, depend for their satisfaction to a large extent on the development of Soviet trade and on the quality of its service to the consumers.

The collective farms acquire goods for use in production through the trading system—agricultural machinery, various implements, electrical equipment, fuel, building materials, automobiles, etc. Trade also includes the compulsory deliveries and voluntary sales of agricultural produce to the State and co-operative organisations by the collective farms and collective farmers.

Soviet trade, as Lenin taught, is a form of economic bond between town and country. It is a vitally important link in the system of economic *connections between State industry and collective farm agriculture.* The development of the trade bond between town and country is an essential prerequisite for the further strengthening of the alliance of the working class and peasantry, for providing the urban and rural population with articles of consumption, and industry with agricultural raw materials.

The division of labour between production and trade organisations and the assigning of the function of commodity circulation to the trading and procurement organisations constitutes a great economy for socialist society, facilitating the acceleration of the turnover of the social product and a restriction of the resources engaged in the sphere of circulation. This enables the resources going to expand socialist production to be increased.

While itself based on socialist production, Soviet trade is at the same time an essential prerequisite for its further development and consolidation. The growth of industry and agriculture and increased demand of the population for commodities are by themselves still insufficient to secure a steady expansion of the socialist economy.

> "If the economic life of the country is to go full steam ahead, and industry and agriculture are to have a stimulus for further increasing their output, one more condition is necessary—namely well-developed *trade turnover* between town and country, between the various districts and regions

of the country, between the various branches of the national economy. The country must be covered with a vast network of wholesale distribution bases, shops and stores. There must be a ceaseless flow of goods through these bases, shops and stores from the producer to the consumer." (Stalin, "Report to the 17th Congress of the C.P.S.U." (B), *Works*, English edition, vol. XIII, pp. 347–8.)

Soviet trade links socialist production to national consumption. Under capitalism the connection between production and consumption is brought about through the uncontrolled mechanism of competition and through crises. In socialist economy the operation of the law of planned, proportional development of the national economy makes possible and necessary the utilisation of trade as a means of achieving *planned connection between production and consumption.*

"The law of balanced, proportional development of the national economy that operates in our society calls for the conscious and organised co-ordination of production and consumption.

"Since our economy is planned, we can directly and not in a roundabout way calculate demand and develop production accordingly. Herein lie the tremendous advantages of our system. But this imposes a tremendous responsibilty upon the distributing organisations, for success depends on us alone, on our organisation and ability." (A. I. Mikoyan, *Measures for the Further Expansion of Trade and for Improving the Organisation of State Co-operative and Collective Farm Trade.* Report delivered at All-Union Conference of Distributive Workers, 17 October 1953. F.L.P.H., p. 19.)

Soviet trade is based, on the one hand, on the continuous expansion of socialist production, and on the other hand on the constant growth of the requirements and purchasing power of the masses. The rising living standards of the population, the growth of money incomes of the working people and the systematic reduction of prices create a constantly growing demand for the products of industry and agriculture. Consequently the sales difficulties and selling crises characteristic of capitalism are unknown to Soviet trade.

The Soviet State and its institutions prescribe the volume and structure of the output of articles of general consumption, the

sources and size of commodity funds and the rational movement of commodities; and they plan the structure and location of the trade network. They distribute commodity resources between different areas, taking account of the purchasing capacity of the population and the pattern of its incomes and expenditures.

Thus, *trade under socialism* is the form of commodity exchange by which a planned connection between town and country, socialist production and popular consumption, is achieved, for the purpose of satisfying the growing demands of the working people.

The need for all-round assessment of the demand of the population, the developing tastes of the consumers, national and local peculiarities, climatic and seasonal conditions, etc., springs from the very nature of Soviet trade. Only in this way can commodity circulation be correctly planned so that the mass of commodities supplied to each district corresponds not only to the total volume of demand—that is, its total value—but also to the precise range of goods demanded; that is, in accordance with its use-values.

Soviet trade actively influences the formation of consumer-demand and helps to introduce new commodities into daily use. In doing so, it utilises advertising as a means of honest information for the consumer about the quality and uses of different commodities. This contrasts with capitalist advertising, which is for the purpose of making profit at the expense of the consumer. The level and correlation of prices of commodities sold to the public is an important factor in forming demand.

The high level of purchasing power in the U.S.S.R. does not in any way mean that any commodity is automatically assured of sale. With rising living standards, the requirements of the masses of the people are becoming increasingly more varied and there is a growing demand for quality goods. A necessary condition for the more complete satisfaction of the population's demands is the elimination of defects in the planning of the production of consumer goods and commodity circulation, which often takes place without demand being properly taken into account so that the possibilities that exist for the production and sale of certain commodities are not utilised. Trading organisations must be able quickly to adapt themselves to changes in demand. They must not permit mechanical distribution of commodities or mistakes in their dispatch to different

districts. They are required to secure a steady improvement of service to the consumer, serving the convenience of customers and saving their time.

It is the function of Soviet trade to exercise an active influence on production for the purpose of increasing the output of commodities which correspond to the demand of the population. It must seek to improve the quality of commodities, widening and improving their variety. The most important levers at the disposal of Soviet trade for influencing production are: the system of business contracts concluded between trading and industrial organisations for the supply of a definite variety and quality of products; extensive use of the system of advance orders placed with industry by the trade organisations; careful inspection of goods received; and the application of sanctions for violation of terms of the contract—including refusal to accept low-quality products.

Very important in strengthening the active influence of Soviet trade upon production is the widespread practice of direct contracts between local distributive organisations and enterprises on the one hand and productive enterprises on the other.

The correct organisation of community turnover presupposes a combination of centralised supply with a wide development of the initiative of local organs in mobilising commodity resources and increased responsibility for them in supplying the population. The amount of goods which become available in any region through centralised supply depends on how local possibilities for mobilising commodity resources are utilised there. This enhances the incentive of local organs to ensure the growth of local production and procurement.

An increase in the role of the local organs in planning commodity turnover leads to the popular demand being better taken into account, with an improvement in the operative capacity and flexibility of the distributive organisations, which have as their task to facilitate in every way the drawing into commodity circulation of the continually fresh supplies of additional local resources.

The movement of commodities within the country is conditioned by the distribution of production, and by the level and structure of consumer demand in the various districts. In connection with this, well-co-ordinated transport is very

important, as upon this largely depends the rapidity of commodity circulation.

In addition to the function of commodity circulation, the trading and procurement organisations also undertake the transport, storage, sorting and packaging of goods. These constitute a continuation of the production process in the sphere of circulation.

Trade ensures a regular flow of financial resources required for renewal and extension of production in the State and collective farm sectors. The velocity of turnover of resources throughout the national economy depends to a large extent on the rapidity with which commodities are sold. Through Soviet trade, that branch of socialist industry which produces consumer goods receives the financial resources which reimburse it for its expenditures and also provide both the net income of the enterprises and the centralised net income of the State. Part of the cash income obtained by the light and food-producing industries from the sale of commodities passes to heavy industry as payment for means of production. Uninterrupted sale of commodities through the channels of Soviet trade secures the timely flow into the State funds of the financial resources earmarked for utilisation throughout the national economy. The sale of their marketed output by the collective farms and the collective farmers is a source of monetary income used both to strengthen and develop the socially-owned economy of the collective farms and to satisfy the personal requirements of the collective farmers.

The expansion of Soviet trade, with an increasing quantity of commodities sold at stable planned prices, is a most important condition for strengthening the stability of Soviet currency.

With the development of socialist production and the increasing welfare of the people, trade turnover is growing, and its structure is being improved; the proportion of higher quality commodities and more valuable grades is increasing, and their variety is being enlarged.

The volume of State and co-operative retail trade in the U.S.S.R. increased 2·3-fold between 1928 and 1940 (in comparable prices), whereas in the capitalist countries in the same period, trade not only failed to increase, but was below the 1929 level on the eve of the second world war. In 1954 retail trade in the U.S.S.R. (in comparable prices) had increased two-fold compared with 1940, and

1·8-fold compared with 1950; while in the U.S.A. the 1954 volume of trade had risen only slightly above the 1950 level, and in Great Britain it remained approximately at that level.

In 1954 sales in State and co-operative shops had increased, compared with 1940, as follows: meat 2·8-fold, fish and fish products more than 2-fold, butter 2·6-fold, vegetable oil and other fats more than 3-fold, sugar 2·8-fold, textiles 2·5-fold (including woollen textiles nearly 3-fold and silks 6-fold), footwear more than 2-fold, watches more than 6-fold, sewing machines more than 7·5-fold, bicycles 12-fold and radio sets 18-fold.

The targets in the fifth Five-Year Plan for volume of trade turnover were fulfilled in four years. Between 1950 and 1955 the volume of commodities flowing to the population from the State and co-operative trade network grew about 1·9 times.

However, the level of commodity turnover which has been attained still lags considerably behind the growing purchasing power of the working masses. The group of measures introduced by the Communist Party and the Soviet State to secure a sharp increase in agricultural production and in the production of consumer goods creates the conditions necessary for a considerable development of the commodity turnover in town and country corresponding to the increased demand. The material and technical base of Soviet trade is being strengthened and the network of warehouses and shops is being extended, especially specialised shops. The fundamental tasks of gradual transition from socialism to communism demand an all-round development of Soviet trade.

Forms of Trade under Socialism

Owing to the existence of the State and the co-operative collective farm sectors of production, trade under socialism is carried on in the following forms: (1) State, (2) co-operative, and (3) collective farm.

State trade plays the leading role and occupies a decisive place in both the wholesale and the retail turnover of the U.S.S.R. The overwhelming mass of commodity resources in the country which flow into Soviet trade are concentrated in the hands of the Socialist State. Trading organisations receive the bulk of their commodities from State industry. Passing mainly through State wholesale trade, these commodities subsequently enter retail trade and are sold to the population.

State purchases, compulsory and voluntary, of agricultural

produce from the collective farms is industry's chief supply source for the raw materials which are made into articles of personal consumption, and also are the basis of the population's food supplies. State farm production and payments-in-kind for the work of the M.T.S. are also large sources of foodstuffs and agricultural raw materials. In 1954, State retail trade embraced 63 per cent of the total retail trade of the country. It caters primarily for the inhabitants of towns and industrial districts.

State retail trade in personal consumer goods is carried on through: (i) the trade network (shops, stores, wholesale bases, etc.) of the All-Union and Republican Ministries of Trade, (ii) the departments of workers' supplies in the transport system and in the coal, oil, metallurgical and some other branches of industry, and (iii) the specialised trade network of certain Ministries, through which the products of their particular factories are sold.

Co-operative trade is carried on by the trading enterprises of consumer and producer co-operatives. The resources of the co-operative organisations are the co-operative property of their member-shareholders. Co-operative trading organisations have large credits from the Soviet State. Co-operative trade in 1954 embraced 27 per cent of all retail trade. By far the greater part of co-operative trade falls to the consumer co-operatives, while the rest is done by the producer co-operatives. Consumer co-operation mainly serves the rural population, and is the main trading organisation in the countryside. In addition, however, the rural population purchases a part of its commodities in the towns. Consumer co-operation is allotted an important role in the State purchases of agricultural produce. It is called upon to supply the rural population with consumer goods, to give every possible assistance to the collective farms and the collective farmers in the sale of their produce, and in this way to promote the growth of all branches of agriculture and the material welfare of the collective farmers and all the working people of the countryside.

State and co-operative trade also includes the turnover of *public catering* establishments—cooked food factories, canteens, restaurants, buffets, etc.—which sell their products to the population. The extension of public catering economises much working time in the national economy; it replaces not very productive domestic labour by more productive socialised

labour and considerably improves the living conditions of the population. Public catering frees millions of women occupied in housekeeping for participation in socialist production and public life. Food resources can be utilised more rationally and economically by public catering, while nutrition can be organised on scientific lines.

State and co-operative trade constitutes an *organised market*, directly planned by the Socialist State. The organised market holds a predominant position in the trade turnover of the U.S.S.R. In addition to the organised market, however, there exists an *unorganised market* in the form of collective farm trade.

Collective farm trade is a form of Soviet retail trade in which the collective farms and the collective farmers are the sellers, supplying agricultural commodities to the population at market prices formed under the influence of supply and demand. The collective farmers sell on the market part of the produce which they obtain from their individual holdings and for work-days put in on the socialised sector of the collective farms. The need for collective farm trade arises from the nature of collective farm group ownership and the existence of the collective farmers' individual holdings. The collective farms and farmers are the owners of their own produce and dispose of it; they can sell it not only by way of procurements and sales to the State but also on the market. Collective farm trade is not directly planned by the State: the State does not lay down for the collective farms and the collective farmers any planned targets for sale of their produce in the collective farm markets, nor does it fix prices for the agricultural commodities they sell. Collective farm trade is, however, under the economic influence of State and co-operative trade. Increased turnover and retail price reductions in State and co-operative trade bring in their wake reduced prices on the collective farm market too.

In the collective farm markets, a free market is to a certain extent at work. If the economic regulating influence of the State is weakened in particular collective farm markets, speculative elements may come to life. By taking advantage of a temporary shortage of particular commodities at a given market, speculative elements force up market prices. But the economic influence of the State on the unorganised market is constantly increasing. This is due to the growth in marketed output of collective farms sold to the State as compulsory

deliveries and by voluntary sale: to the expansion of State farm production; and to increasing quantities of foodstuffs available in the State and co-operative shops.

Collective farm trade is an important means of encouraging agricultural production and of supplying towns and industrial settlements with foodstuffs. It supplies the population with a considerable proportion of such products as potatoes and other vegetables, meat, dairy produce, etc. Collective farm trade in 1954 amounted to about 10 per cent of total retail turnover, and to about 16 per cent in the case of foodstuffs.

The collective farms and the collective farmers also sell part of their agricultural produce on a commission basis through the consumer co-operatives. They hand over their produce to the co-operative, receive from it the sum obtained from the sale of this produce, less commission. This has definite advantages for the collective farms and farmers, sparing them as it does the outlay they would otherwise have to incur to sell their goods. The extensive development of commission trade in agricultural produce carried out by the co-operatives is very important. Commission trade frees the collective farmers' time for agricultural work, draws into commodity turnover an additional amount of food products, and influences prices on the collective farm market in a downward direction.

Prices and Costs of Circulation in State and Co-operative Trade

The undivided sway of socialised property and the predominance of State public property in both production and commodity circulation enables the Socialist State to plan prices in all sectors of the national economy. In the U.S.S.R. the prices of the organised market are determined in a planned way: the State procurement and purchase prices for the marketed output of the collective farms and collective farmers sold by them to the State and co-operative organisations; industrial and trade wholesale prices; State and co-operative retail prices, that is, the final prices at which the people buy consumer goods.

As already mentioned, the law of value exercises through prices a regulating influence on the sphere of commodity circulation. In planning prices the Socialist State cannot but reckon with the operation of the law of value. It takes into account the value of the commodity, the state of supply and

demand, the importance of the commodity for popular consumption, and the need to use prices as an instrument in the redistribution of resources in the national economy. For the majority of commodities all-Union retail prices, uniform for the whole country, are laid down. With a view to ensuring a greater taking into account of conditions of production and marketing, the State fixes for a number of commodities (mostly foodstuffs) zonal retail prices, which differ from district to district, and for a few it fixes seasonal retail prices. State procurement and purchase prices differ from district to district, and for certain types of commodity also from season to season.

The systematic *reduction of retail prices* is one of the main means of raising the living standards of the mass of the people. The seven price reductions carried out since 1947 have considerably increased the purchasing power and real incomes of the working people in town and country. Price reductions are an important means of exerting planned influence on demand and are utilised as a means of increasing the consumption of particular products. Retail price reductions are based on reductions in production and trading expenses as well as on the increasing volume of commodities made available by the State for sale to the population.

As a result of the systematic reduction of State retail prices in the U.S.S.R., a quantity of commodities which cost 1,000 roubles in 1947 could be purchased for 433 roubles in 1954. In 1954 retail prices of bread and of butter were three times lower than at the end of 1947, meat nearly three times lower, and sugar 2·3 times lower. The targets laid down in the fifth Five-Year Plan for price reductions were fufilled ahead of time. At the same time in the U.S.A., Great Britain, France, and the majority of other bourgeois countries prices of these commodities had considerably increased, compared with 1947.

Commodities enter the trade network at wholesale prices. The trade organisations sell these commodities to the population at retail prices. The difference between the retail and the wholesale price constitutes the trade margin. This trade margin covers the circulation costs of the trading organisations and their net income. In this way the *retail price* of the trade organisations is equal to the wholesale price plus the trade margin. The trade margin is usually assessed by deducting a fixed

percentage discount from the retail price. Trade margins are planned by the State, and their reduction obliges trade organisations to improve their work and reduce costs of circulation.

Costs of circulation in Soviet trade are the money expression of the expenses of the trading undertakings in bringing commodities to the consumer. In State and co-operative trade these costs are planned by the State. Costs of circulation include: expenditure on depreciation (premises, stocks), expenses of storage, sorting and packaging of goods, transport, wages of trade workers, etc.

There are two forms of circulation costs in Soviet trade. In the first place, there are costs connected with the continuation of the production process in the sphere of circulation (transporting, storage and packaging of goods); in contrast to capitalist trade, these costs are the major item in Soviet trade. In the second place, there are costs connected with the commodity form of production (the conduct of purchasing and selling operations, handling the cash accounts of the trading enterprises, etc.). These two forms of circulation costs are made good in different ways.

The first form of circulation costs is made good by the labour of the trade workers connected with continuing the production process in the sphere of circulation. This labour increases the value of the commodities, which covers expenditure on transporting, storage, packaging and other productive functions performed by the trade organisations. The second form of circulation costs, i.e., the costs connected with the commodity form of production, is made good out of the net income created in the productive branches of the economy. The level of wholesale industrial prices is determined in such a way that a part of the net income of industry flows into the trade organisations.

As a result of the advantages of the planned socialist economic system, the level of costs of circulation—that is, circulation costs as a proportion of turnover—is a fraction of the level in the capitalist countries. Soviet trade is free from the enormous unproductive expenditures which constitute the lion's share of capitalist costs of circulation, and which are brought about by the anarchy of production, crises, competition, speculation, and colossal excesses in advertising. In socialist society the flow of commodities bears a planned character, and production is provided with a constantly growing internal market. Hence

the great reduction in the U.S.S.R. compared with bourgeois countries, of the time of circulation and of the number of stages through which commodities pass on their way from producer to consumer. The speed of turnover in the U.S.S.R. is considerably higher than in the capitalist countries, which means a very great economy of resources.

Under capitalism the accumulation of enormous stocks of surplus commodities is a characteristic phenomenon. In contrast, the volume of commodity stocks in socialist economy is planned, in accordance with the requirements of trade and the need for an even and uninterrupted flow of commodities into the trade network. This enables the formation of surplus stocks of commodities to be averted.

As Soviet trade increases, circulation costs are still further reduced. This reduction is in socialist society combined with improvement in the organisation and technique of trade, increasing the quality of service to the customer and is an important way of economising social labour. It enables supplementary resources to be switched over to increasing material production, expanding turnover and improving trade standards. Fundamental factors in the reduction of costs of circulation are the mechanisation of labour processes, increased productivity, the development of socialist emulation among the trade workers to secure improved working of the trade network, and better utilisation of labour-power. With the help of piece-rate and bonus systems of wages, the Soviet State gives material incentives to trade workers to achieve higher indices of work. Important sources for the further reduction of circulation costs are improvement in the planning of commodity turnover and study of the popular demand, correct organisation of the delivery of goods to the distributive network, extension of trade in ready-packed goods, struggle against losses in trade and procurement, rationalisation of the transport and warehousing of goods and more effective utilisation of transport. Of essential importance for the reduction of costs of circulation is a further shortening of the channels of movement of goods, a cutting-down of the number of links in the trade network.

On the eve of the second world war, costs of circulation in wholesale and retail trade of the U.S.S.R. amounted to approximately 10 per cent of the retail turnover. In 1954, in State and co-operative trade, they amounted to about 8 per cent of retail turnover.

The reduction of costs of circulation is inseparably bound up with the improvement of economic accounting in trade enterprises. Economic accounting requires that trade enterprises operate profitably; that is, have a net income (profit) while strictly observing fixed prices. *The net income of socialist trading enterprises* differs fundamentally from capitalist trading profits; it is created by the labour of trade workers freed from exploitation (in so far as their labour is a continuation of the process of material production in the sphere of circulation) and also of workers of socialist production (a portion of the trade margin is covered at the expense of the productive branches). This income is used for general State requirements (by means of allocations to the Budget), for extending the trade network, increasing the resources of the trading organisations and improving the material and cultural position of the workers in Soviet trade.

Foreign Trade

Socialist economy requires a broad development of foreign trade—commodity exchange with foreign countries, which makes possible utilisation of the advantages of international division of labour. All products of socialist production which enter into foreign trade turnover are, as has been mentioned, commodities. Under conditions of socialist society the development of foreign trade is subordinated to the basic economic law and other economic laws of socialism and is carried out in a planned way, the operation of the law of value being taken into account. Foreign trade of a society based on socialism is used to satisfy more fully that society's growing requirements. It serves as an additional source of means for the development of production, use of the achievements of peaceful technique and improvement of the supply of consumer goods to the population.

Foreign trade under socialism is a monopoly of the State. In the U.S.S.R. all foreign trade transactions are in the hands of a special State organisation—the Ministry of Foreign Trade. They are subordinated to the tasks of socialist construction, and are based on State export and import plans which are an integral part of the national economic plan. The monopoly of foreign trade is an essential condition for the existence and development of socialist economy.

The *monopoly of foreign trade* in the U.S.S.R. serves as an instrument of planned extension of commodity turnover with foreign countries, and at the present time performs two important functions. First, it guarantees the economic independence of the land of socialism from the capitalist world; it protects the national economy and internal market from penetration by foreign capital and from the pernicious effects of economic crises and the uncertainties of the world capitalist market. Secondly, it is directed to strengthening economic co-operation between the U.S.S.R. and the People's Democracies, to the rendering by the Soviet Union of aid for the economic development of these countries. This new function of the monopoly of foreign trade has arisen with the formation of the world market of countries in the democratic camp. In place of the competitive struggle these countries build their commercial relations on fraternal mutual assistance.

The monopoly of foreign trade has reliably protected the economy of the U.S.S.R. from the economic aggression of the imperialist countries. It played an important part in the industrialisation of the Soviet national economy, ensuring the supply to industrial establishments of a considerable quantity of imported machinery. Since the conversion of the U.S.S.R. into an industrial Power, the structure of its foreign trade has substantially changed: industrial goods have begun to predominate in Soviet exports, whereas in the exports of prerevolutionary Russia agricultural raw materials predominated. During the fourth and fifth Five-Year Plans the U.S.S.R. has still further increased its exports of heavy industrial products. The export of equipment from the U.S.S.R. was in 1954 16·5 times (in comparable prices) what it had been in 1938.

In its foreign trade the Soviet Union consistently adheres to the principles of respect for the national sovereignty of all countries, and the complete equality and mutual advantage of both parties. Basing itself on the possibility of peaceful coexistence of the two systems—the socialist and the capitalist —the Soviet State regards the extension of foreign trade relations as one of the most important ways of drawing the peoples together, reducing international tension and strengthening the cause of peace.

As a result of the tremendous growth of socialist production in the U.S.S.R., and the rise of the new world market of the

democratic camp, the foreign trade of the Soviet Union is steadily increasing from year to year. Its trade with the countries of the democratic camp is growing rapidly, and accounts for the major share of the Soviet Union's total foreign trade. In 1954 trade with the capitalist countries accounted for one-fifth, and trade with the countries of the democratic camp for four-fifths, of the U.S.S.R.'s total foreign trade.

The Soviet Union steadfastly steers a course of developing businesslike economic relations with the capitalist countries on mutually advantageous conditions. However, the policy of discrimination pursued under the pressure of aggressive circles in the U.S.A. is hindering the development of trade between the U.S.S.R. and the capitalist countries. This policy is expressed in the rejection of trade relations with the U.S.S.R. and the People's Democracies, and compelling all dependent bourgeois countries to adhere to this policy. This policy seriously injures the interests of the States which pursue it and is consequently meeting with failure. In the course of 1953–4, a tendency to extend their trade relations with the Soviet Union and the People's Democracies appeared in a number of bourgeois countries.

In 1953 the U.S.S.R. traded with 51 foreign States, while trade with 25 of these countries was based on trade agreements of one year's or several years' duration. The U.S.S.R.'s foreign trade turnover in 1953 reached 23 milliard roubles, exceeding the pre-war level (in comparable prices) almost 4-fold. Alongside the U.S.S.R.'s increasing trade turnover with the countries of the democratic camp, trade increased considerably with a number of countries in Western Europe and the Near and Middle East. At the same time, there was a further enlargement of the list of exported and imported commodities. In 1954 the Soviet Union continued to extend its economic ties with foreign countries. The U.S.S.R. had trade relations with 56 foreign States.

BRIEF CONCLUSIONS

(1) The socialist mode of production has its own form of commodity exchange in the form of trade by socialist enterprises with the aim of satisfying the growing demands of the working people. Trade under socialism is conducted in a planned way, linking growing socialist production with increasing consumption by the people; linking town and country, the various sectors of the national economy, and the districts of the country.

(2) There are two markets in the U.S.S.R.: the organised

market in the form of State and co-operative trade, and the unorganised market which involves collective farm trade. The organised market is directly planned by the State. It plays the decisive role in trade turnover. The unorganised market is not directly planned, but is regulated by the State through economic channels.

(3) Prices in State and co-operative trade are determined in a planned way. Prices in the collective farm markets are formed under the influence of supply and demand, and are subject to the regulating influence of State prices. The Soviet State effects the reduction of retail prices. This is bringing about an increase in the purchasing power of the workers employees and peasants, and the growth of consumption by the people.

(4) Soviet trade is based on the system of economic accounting and is considerably more economical than capitalist trade, being freed from the enormous unproductive expenses which are engendered under capitalism by private property, competition and anarchy of production.

(5) In a socialist economy, foreign trade is a State monopoly and serves the ends of strengthening and further developing that economy through making use of the advantages of the international division of labour. The monopoly of foreign trade is a means of planned extension of the foreign trade turnover of the U.S.S.R. with all foreign countries regardless of their social system, on the basis of complete equality and mutual advantage. It ensures the protection of the socialist economy against penetration by foreign capital and is directed to strengthening economic collaboration between the Soviet Union and the other countries of the socialist camp.

CHAPTER XXXVII

THE NATIONAL INCOME OF SOCIALIST SOCIETY

The Gross Social Product and the National Income in Socialist Society

The gross social product in socialist society is the total material wealth (both means of production and consumer goods) produced in society over a particular period, such as a year.

It is created by the labour of workers in branches of material production: industry, agriculture, building, transport when serving production, and likewise by the labour of trade workers when carrying on operations which continue the production process in the sphere of circulation (such as storing, finishing, transporting, packing goods, etc.). In addition to manual workers, brain workers (scientists, engineers, etc.) employed in branches of material production also participate directly in the creation of material wealth.

In the non-productive branches no gross social product is formed. But although workers employed in the non-productive sphere (State administration, culture, welfare and health services) do not produce material wealth, their labour is necessary to socialist society and for material production: it is socially-useful labour. The Socialist State exercises the functions, vitally necessary to society, of organiser of the national economy and of provider of culture and education. Once socialism has been established, the part played by science in improving technology and increasing production grows immeasurably. Labour expended on training skilled personnel for production is of great importance. Science, education and the arts satisfy the cultural needs of the working people. The welfare and health services provide conditions for fruitful labour by the workers in socialist society. There is thus a mutual exchange of activities in socialist society between workers in material production and those in the non-productive sphere.

Production, the sphere of providing material goods, is the basis of the socialist system, as it is of all others. It is therefore

of very great importance to the national economy to increase the share of labour performed by workers employed in material production, by reducing the share performed by workers employed in various non-productive branches. Thus, swollen establishments in State administration, and superfluous administrative and managerial personnel in State enterprises and collective farms, a high level of costs of circulation, all divert labour, especially skilled labour, from the sphere of material production. This hinders the increasing of the national income and inflicts damage on the national economy.

The growth of social wealth and the creation of the abundance of products needed for the building of communist society are promoted by consistently increasing the proportion of labour engaged in the material production sphere, by simplifying and cheapening administrative machinery in every possible way, and by reducing costs of circulation.

Lenin considered that a most important task of Soviet power was

> "consistently to reduce the size and cost of the Soviet apparatus by cutting it, by organising it better, by abolishing red tape and bureaucracy and by reducing non-productive expenses." (Lenin, *Works*, 4th Russian edition, vol. XXXIII, p. 406.)

In the process of production a part of the gross social product is used to replace means of production which have been consumed. This part embodies the outlays of past labour, transferred to the product from the means of production which have been used up. After this has been deducted, the remaining part of the gross social product constitutes the national income of society.

The national income in socialist society is that part of the gross social product created by the workers in socialist production which remains in a particular period after used-up means of production have been replaced; it embodies the new labour expended.

The national income in a *physical* form consists of the total means of consumption produced in the country and used to satisfy the needs of society, together with that part of the output of means of production which is used to extend socialist production in town and country.

In so far as commodity production exists in socialist economy, the national income as a whole and all its constituent parts, whatever physical form they may take, appear also as values, in *money* form. In view of this, both the total mass of consumer goods and that part of the national income which consists of means of production are expressed and measured by means of money.

Owing to price changes the national income is calculated in comparable (fixed or constant) prices, using the prices of a particular year, as well as in current prices. Calculation of the national income in comparable prices makes it possible to establish the real changes in the volume of national income over a period of years.

Under capitalism the national income is produced by the labour of workers subjected to exploitation, and is at the disposal of capitalists and landlords, who retain the lion's share for themselves in the shape of income not earned by labour; a smaller part passes to the working people. In socialist society the national income is created by the labour of workers free from exploitation, and belongs in its entirety to the working people. Socialism precludes the existence of incomes not earned by labour.

The national income of socialist society consists of the product of labour for itself and the product for society. The product of labour for itself is distributed according to work done among the workers in material production who create it, and it is used to satisfy the personal needs of the workers in socialist production and their families. The product for society created by the workers in material production is the net income of socialist society, and is used to extend production, to develop cultural and health facilities, to cover expenditure on State administration, etc.

The Continuous Growth of the National Income in Socialist Society

In socialist society the national income grows continuously and rapidly, as a result of the uninterrupted growth of socialist production, which expands in conformity with the requirements of the basic economic law of socialism. The national income grows considerably more rapidly under socialism than in capitalist society.

The national income of the U.S.S.R., in comparable prices, was 6·1 times the 1913 level in 1940, 10 times in 1950, and about 15 times in 1954.

Between 1929 and 1954 the national income of the U.S.A., in comparable prices, did not even double itself. The U.S.S.R. national income, also measured in comparable prices, rose over the same period 11 times in spite of the tremendous damage done to the economy by the fascist invaders during the war years.

The rapid increase in the national income in socialist society is due to two factors: (1) the growth in the productivity of social labour, and (2) the increase in the number of workers in production. The bulk of the increase results in socialist society from the growth in labour productivity. For example, during the fourth Five-Year Plan 20 per cent of the increase in the national income was a result of the increase in the number of workers in production, and 80 per cent resulted from the growth in labour productivity.

The labour productivity of workers in socialist production, as already mentioned, increases rapidly because up-to-date machinery is introduced in all branches of production (including agriculture), and because the organisation of labour and production is improved, the skill of the workers, collective farmers and intelligentsia[1] grows, the material and cultural standards of the working people are regularly raised, and socialist emulation develops.

Increases in the productivity of social labour require the planned and rational use of materials and labour, and, in particular, economical use of the means of production. The latter makes it possible to produce more with the same amount of raw material and equipment, to increase the size of the social product, and, consequently, of that part of it which constitutes the national income.

Increasing the number of workers employed in material production is an important factor in the growth of the national income. In socialist society, unlike capitalist society, exploiting classes and their numerous hangers-on do not exist, unemployment is absent, too much manpower is not diverted into the sphere of circulation, and so on. As a result, a considerably greater part of the able-bodied adult population is employed

[1] Roughly corresponding to those known as "professional workers" in Great Britain, ranging (say) from village teachers to stage artistes.—*Editor, English edition.*

in branches of material production, which create the gross social product. At the same time the number of workers employed in science, education, the arts, and the health services steadily increases. In socialist society all the achievements of material and spiritual culture belong to the people; under capitalism they are mainly utilised by the exploiting classes.

In the U.S.S.R. unemployment has long been a thing of the past, while in the U.S.A. the number of unemployed in 1950–4 amounted to an average of about 10 per cent of the able-bodied population, in terms of the number of man-years of employment and unemployment per annum.

In the U.S.S.R. more than half of the able-bodied population working in non-productive branches are employed in the cultural and welfare services; in the U.S.A. one-seventh of the workers in non-productive branches is employed in these services.

In socialist society the growth of the national income is a most important index of the improvement of the well-being of the population, as it is accompanied by an increase in the incomes of workers, peasants and professional workers. Under capitalism the growth of national income cannot provide an index to the growth of the well-being of the population, as a constantly increasing part of the national income is appropriated by the capitalists and big landowners, and the share of the working people in the national income is progressively falling.

In the U.S.S.R. the volume of the national income, in comparable prices, was three times as great in 1954 as in 1945. In the U.S.A. the volume of the national income increased in comparable prices by only 12 per cent over the same period.

Distribution of the National Income

The national income created in the process of socialist production is ultimately distributed and utilised for consumption and socialist accumulation. In contrast to capitalism, the national income of socialist society is distributed

> "not with a view to enriching the exploiting classes and their numerous parasitical hangers-on, but with a view to ensuring the systematic improvement of the material conditions of the workers and peasants and the expansion of socialist production in town and country." (Stalin, "Political Report

of the Central Committee to the XVI Congress of the C.P.S.U. (B)", *Works*, English edition, vol. XII, p. 331.)

The national income is distributed in socialist society in the following manner. In the first place the national income takes the various forms of income in those branches of material production where it is created: (*a*) in the State sector, and (*b*) in the co-operative collective farm sector of the economy.

National income created in the State sector of the economy may be divided into two main parts. The first part is the product created by the workers in material production for themselves, and takes the form of the wages of manual and clerical workers in State productive enterprises. The other part of the national income created in the State productive sector is the product for society, or net income. This assumes two main forms: (1) the net income of State enterprises (the profit of enterprises, as it is called); (2) the centralised net income of the State (such as the so-called turnover tax, deductions from profits, and charges calculated on the basis of the wages bill for social insurance purposes).

National income created in the collective farms' socially-owned sector is the property of the collective farms, and also consists of two main parts: the product for themselves and the product for society. The product for themselves, created by the collective farmers' work in the socially-owned sector of the collective farms, takes the form of incomes in kind and in money, distributed among the collective farmers according to the work-days earned. The collective farmers also receive income in money and kind from work in their personal household plots. The product for society created by the collective farmers in the socialised sector is the net income of the collective farm. Part of this is used to develop collective farm production and to meet the general needs of the farm, and the material and cultural requirements of the collective farmers. The other part of the net income created in the socialised sector of the collective farms is transformed through the price mechanism and the income tax into centralised net income of the State. In this way collective farms contribute to public expenditure by the State on the extension of production in town and country, on the development of culture, on the strengthening of the country's defence, and so on.

The total centralised net income of the State therefore embodies not only part of the labour for society expended by the working class but also part of the labour for society expended by the collective farm peasantry.

The product for themselves created by the labour of workers in producers' co-operatives takes the form of their wages, while the product for society takes the form of the net income of these producers' co-operative enterprises. Part of this is used to extend production in the co-operatives and to meet the needs of their members. The remainder is transformed into centralised net income of the State by means of the turnover tax and income tax.

Thus in socialist society there takes place the formation of different categories of income, received directly in the sphere of material production. Part of the national income, the product for themselves created by workers in production, is distributed according to work done, and takes the form of the wages of manual and clerical workers engaged in production, the collective farmers' personal incomes and producers' co-operative workers' wages. The other part of the national income, the product created for society by the workers in production, or the net income of society, takes the following forms: net income of State enterprises, net income of collective farms and co-operative enterprises, and centralised net income of the State. However, as stated above, some part of the net income of enterprises is transformed into the centralised net income of the State in the course of the distribution of the income.

In the course of the further distribution of the national income, mainly through the State Budget, part of it is transformed into the incomes of non-productive branches, and of the workers employed in them.

In socialist society the State expends large sums on meeting a number of social needs—such as the education and health services, the maintenance of State administration, and increasing the country's defensive capacity. Socialist society cannot advance unless it accumulates year by year and extends social production. It could not develop the productive forces or satisfy the growing needs of the population without this. Hence follows the economic necessity of concentrating in the hands of the State a considerable part of the national income, in the shape of a cash fund to be spent on the purposes that have been

mentioned. This fund is formed almost entirely out of the centralised net income of the State; only a very small part of it consists of receipts from the population (taxes and loans). The Budget plays the main part in concentrating resources in the hands of the State and in apportioning them for social needs.

Part of the net income of society is expended by the State on social and cultural services and administration, and takes the form of the wages of scientific, educational and health workers, and of workers in State administration and the armed forces. A considerable part of the cultural and welfare services (education and health) is supplied to the population in town and country without payment, at State expense. Part of the cultural and welfare institutions and enterprises reimburse themselves for their expenditure out of payments by the population for the services rendered. The State pays pensions, allowances and stipends, and grants various privileges, holidays with pay, etc. This increases the real wages of manual and clerical workers and the real incomes of the peasantry.

Ultimately the whole national income of socialist society may be divided into the consumption fund and the accumulation fund.

The *consumption fund* is that part of the national income which is used to satisfy the growing material and cultural requirements of the workers, peasants and intelligentsia. It is formed primarily from the product created by the labour of workers in production for themselves. A further substantial part of the consumption fund is formed by the State, the collective farms and the co-operatives out of the product for society, expended on social and cultural services. Increases in the consumption fund are the conditions necessary for the growth in the incomes of the working people.

In socialist society the incomes of workers, peasants and intelligentsia grow continuously and rapidly for the following reasons:

(1) the uninterrupted extension of production makes it possible to employ additional workers each year, drawn from the natural growth of population, with a resulting increase of the gross income of the working people;

(2) the skill and productivity of labour, the average earnings of manual and clerical workers, and the average income of collective farmers, increase regularly;

(3) State Budget allocations for culture, education, and health are increasing;

(4) funds received by the working people in the shape of social insurance and social security payments and so on are increasing. Moreover, the real incomes of the working people in socialist society increase more rapidly than their nominal (money) incomes, because the State pursues a policy of reducing the prices of consumer goods.

The rapid and continuous growth of production is the source of the continuous improvement of the material and cultural standard of living of the working people. To achieve this growth in production, part of the national income has to be transferred to the accumulation fund.

The *accumulation fund* is the part of the national income of socialist society which is used to extend and improve socialist production in town and country, to increase non-productive funds for cultural and welfare purposes, including the housing fund, and to form reserves. Thus the accumulation fund provides material conditions for the growth and improvement of socialist production on the basis of higher technique, and for further increases in the well-being of the people.

The working people of the U.S.S.R. receive about three-quarters of the national income for the satisfaction of their personal material and cultural needs, out of both the product for themselves and the product for society. The remainder of the national income is used for socialist accumulation in town and country.

BRIEF CONCLUSIONS

(1) The national income of socialist society is that part of the gross social product which embodies the newly expended labour of workers, peasants, and intelligentsia employed in production. In contrast to capitalism, all the national income under socialism belongs to the working people.

(2) The national income grows considerably more rapidly in socialist society than under capitalism, because socialism is free from the anarchy in production, waste, and economic crises inherent in capitalism, and ensures that materials and labour are used in a planned and rational way. The growth

of the national income is brought about, firstly, by increasing the productivity of social labour, and, secondly, by increasing the number of workers employed in the branches of material production.

(3) The national income is distributed in conformity with the requirements of the basic economic law of socialism, and this leads to a continuous increase in the incomes of the working class, the peasantry, and the intelligentsia. One of the main factors in the increase of the incomes of the working people is the outlays by the State, the collective farms, the co-operatives, and social organisations on the social and cultural needs of the population. The growth of the national income in socialist society is one of the main indices of the increased well-being of the working people.

(4) The national income of socialist society is divided into the consumption fund, used to satisfy the continuously growing material and cultural needs of the people, and the accumulation fund, providing the material conditions for the rapid growth and improvement of socialist production, on the basis of higher technique.

CHAPTER XXXVIII

STATE BUDGET, CREDIT, AND CURRENCY CIRCULATION IN SOCIALIST SOCIETY

The Finance of Socialist Society

Owing to the existence of commodity production and commodity circulation in socialist economy, the output of all socialist enterprises is expressed in money (value) terms as well as in physical terms. Both State and co-operative collective farm enterprises receive money for their output, and use it to make good production outlays (depreciation, acquiring raw and other materials and fuel, payment of labour, etc.) and to extend production. Thus definite money funds are formed and expended in socialist enterprises. This is the financial side of their economic activity.

Part of the money received by enterprises is transferred into a general State fund, which is used centrally for public needs and for national economic and cultural development. The essential function of the State Budget is to form and distribute this centralised fund of monetary resources. Monetary funds are formed for the purposes of social insurance and insurance of persons and property.

The money of enterprises which is temporarily not in use is concentrated and used centrally through credit.

All these forms under which monetary funds are constituted, regardless of their special features and differences between them, are organically connected together, making up a single system of finance. The *finance of socialist society* is a system of economic relationships expressed in the planned formation and distribution of money funds in the economy in the interests of securing a continuous growth of production, a steady rise in the material and cultural standards of the people and a strengthening of the power of socialist society. The finance of socialist society includes the State Budget, the finances of State enterprises, collective farms, producer and consumer

co-operatives, State social insurance, State property and personal insurance, and various forms of credit.

The material basis of the financial system is socialist production; and the financial system rests on the growth of industry and agriculture and the extension of trade. At the same time, finance exercises an active influence on the development of production and commodity circulation.

With the help of the financial system the gross social product is distributed in a money form among the sectors of socialist production—State and co-operative collective farm—among branches and enterprises, between different parts of the country, and between society as a whole and its members. The financial system has to ensure the most rational use of all the resources of socialist economy, to strengthen the régime of economy, economic accounting and financial discipline in the national economy and increase the profitability of production. By means of finance, the Socialist State enforces rouble control over the whole economic activity of enterprises and branches of the economy.

The Budget of the Socialist State

The State Budget occupies a leading place in the financial system of socialism. In socialist society the *State Budget* is the main form in which the centralised fund of monetary resources is formed and used in a planned way to extend socialist production and satisfy the growing needs of society as a whole. A considerable part of the national income is distributed through the State Budget. The Budget includes revenue (monetary resources made available for centralised disposal by the State) and expenditure (allocation of these resources for the needs of society). The plan for budgetary revenue and expenditure is the basic financial plan of socialist society.

The State Budget under socialism differs radically in its essential character from the State Budget under capitalism, which is an instrument for additional exploitation of the working masses and enrichment of the monopolies, and is used for the purpose of militarising the economy and conducting an arms drive. In harmony with the basic economic law of socialism, the Budget in socialist society functions as a very important factor in the development of peaceful economy and the growth of the productive forces for the purpose of satisfying

the growing material and cultural demands of society as a whole. "The incomes which the exploiters used to squeeze out of the labour of the people now remain in the hands of the working people and are used partly for the expansion of production and the enlistment of new detachments of working people in production, and partly for directly increasing the incomes of the workers and peasants." (J. V. Stalin, "Report to the Seventeenth Party Congress", *Works*, vol. XIII, p. 341.)

Thanks to the predominance of social ownership of the means of production, the State Budget under socialism is closely connected with the whole national economy, and is an instrument for the planned development of socialist economy and rational use of productive resources in all branches of the national economy. Reflecting the plan for the national economy, the Budget at the same time exercises an all-round influence upon its fulfilment. In the hands of the Socialist State it serves as a necessary means of ensuring observance of those proportions in the national economy demanded by the law of planned development of the national economy. By means of the Budget the Socialist State mobilises the monetary resources of the national economy and makes these resources available to enterprises and branches in accordance with their planned tasks and how they are fulfilling them; it carries out a check on the state of the financial affairs of the branches and enterprises, on how far they are observing a regime of economy.

The State Budget is based on the development of the whole of the socialist national economy. First, it is integrally connected with the finances, the revenues and expenditures of State enterprises. Most of the net income of society created in these enterprises passes to the State Budget. A considerable part of capital construction in all branches of the national economy, and of the increase in the fixed and circulating funds of State enterprise, is paid for out of the State Budget. The connections between the State Budget and the collective farms are of great importance: part of the net income of collective farms is transferred to the Budget and used for public needs. The State, through the Budget, gives financial assistance to the collective farm sector in developing production, and maintains schools, hospitals and other social and cultural institutions serving the collective farmers.

The main source of the *revenue side* of the State Budget of the

U.S.S.R. is the net income of society, or more exactly that part of it which is the centralised net income of the State. In 1954, 86 per cent of all budgetary revenue came from the net income of society (receipts from socialist economy).

The centralised net income of the State enters the State Budget in the form of (i) "turnover tax", as it is called, (ii) deductions from the net income (profits) of State enterprises, (iii) charges calculated on the basis of the wages bill for social insurance purposes, (iv) income tax from collective farms and other co-operative enterprises, and so on. The first two sources constitute the bulk of the total revenues in the State Budget of the U.S.S.R.

Resources from the population, received as taxes and loans, are also one of the sources of State budgetary revenue. *Taxes* on the population are a form in which part of the personal incomes of members of society is compulsorily transferred to the Budget. In socialist society, unlike capitalism, taxes are a very small part of the income of working people, and are used for public needs. In 1954 they amounted to only 8·3 per cent of the total revenue of the U.S.S.R. State Budget. Payments and allowances of all kinds to the population out of the Budget amount to several times more than the taxes collected from the population.

Part of the working people of the U.S.S.R. are completely freed from paying taxes, and the rates of taxation depend on the size of the income. In 1954 the agricultural tax on the peasantry amounted to less than 1 per cent of the revenue of the State budget; and in that year the total taxation on the rural population was reduced to less than 40 per cent of the level of 1952.

State loans in socialist society are a form in which the State attracts resources from the population for the needs of society as a whole for a definite period. When working people subscribe to loans, they voluntarily transfer part of their personal incomes to the State for its temporary use. At the same time loans are a form of savings for the working people, and provide them with income in the shape of cash prizes and interest. In the State Budget of the U.S.S.R. between 1951 and 1954, an average of more than 5 per cent of all revenue came from this source.

The *expenditure side* of the Budget consists of State financing, i.e., non-returnable expenditure, for the following main

purposes: (1) development of the national economy; (2) social and cultural measures; (3) maintaining State administration; (4) ensuring the defence capacity of the State. The bulk of the resources of the State Budget of the U.S.S.R. is used to finance the economy and social and cultural measures; more than two-thirds of all the State budgetary expenditure was allocated to these purposes in the post-war period.

Financing out of the Budget is one of the most important factors in developing the economy of the Soviet Union. In 1946–54 State budgetary expenditure on the national economy amounted to 1,462 milliard roubles. Budgetary resources are used to secure the preferential growth of production of means of production, to develop heavy industry, to improve agriculture and to extend the production of consumer goods. The Socialist State spends tremendous budgetary sums annually on capital investments in all branches of the economy. The U.S.S.R. State Budget finances extensive capital construction of new works, mines, factories, power-stations, State farms, M.T.S., railways, municipal enterprises, housing, schools, hospitals, sanatoria, and so on. Part of the Budget resources is used to increase the circulating resources of existing enterprises, supplementing the amount remaining for this purpose from the net amount of the enterprises themselves. The State material reserves needed for the planned conduct of the economy and for the country's defence needs are formed out of budgetary funds.

A considerable proportion of the budgetary funds is expended on social and cultural services, which are an important source of steady improvement in the material and cultural standards of living of the people. With this object in view, Budget allocations are made for scientific development, education, health, physical culture, pensions and allowances, and so on.

In socialist society part of the budgetary resources is expended on maintaining the machinery of State, which is responsible for activities of many kinds in the fields of economic and cultural development. In order to put into effect the régime of economy, in the interests of an extension of production and the satisfaction of the growing needs of the people, the cost of administration and management has to be reduced in every possible way. In view of this, the Socialist State systematically carries out a policy of rationalising the administrative and

managerial machinery and cutting down expenditure on maintaining it.

Part of the budgetary resources are spent on strengthening the country's defence. In the Soviet Union, which follows a policy of peace, expenditure on the armed forces constitutes a comparatively small share of the Budget.

In the first five post-war years alone (1946–50), the Soviet State expended 524·5 milliard roubles out of the Budget on social and cultural services; in four years of the fifth Five-Year Plan (1951–4) it spent 512·5 milliard roubles.

In 1932 expenditure on maintaining State administrative bodies amounted to 4·2 per cent of budgetary resources in the U.S.S.R., in 1940 to 3·9 per cent, and in 1955 to 2·2 per cent. In the 1955 Budget 19·9 per cent of total expenditure was allotted to national defence, whereas in the U.S.A. direct expenditure for military purposes in 1954–5 alone amounted to two-thirds, approximately, of the entire Budget.

The size of the State Budget in socialist society steadily increases on the basis of the continuous development of the national economy. The rapid and uninterrupted growth of the national income in socialist society makes it possible also to increase continuously that part of it which is transferred to the State Budget. Thus, the revenue of the U.S.S.R. State Budget in 1954 was more than treble the pre-war 1940 level. A distinguishing feature of the State Budget of the U.S.S.R. is its stability. Budgets in capitalist countries are in deficit as a rule, but the U.S.S.R. Budget is not merely balanced—it always has a considerable surplus.

Execution of the Budget directly depends on actual achievements in output, sale of commodities, reduction in outlays on production and circulation, and growth of accumulation; and it therefore depends on the extent to which reserves within production are utilised and economic accounting is applied. At the same time the Budget contributes to the bringing to light and putting to use of these reserves and to increasing the profitability of production.

During the actual carrying out of the Budget, the financial institutions are required to exercise "rouble control" of the fulfilment of economic plans and of the observance of the régime of economy and financial discipline. This control is carried out both in fixing the amounts to be deducted into the

Budget, and in checking to see that obligations to the Budget have been fulfilled. The financial institutions analyse the economic activity of enterprises and organisations, and disclose their faults; they check how far State resources have been conserved and correctly spent, and the efficiency of book-keeping and financial accounting in enterprises; and they struggle against waste of resources. To this end budgetary payments to economic organisations are frequently made dependent on the quality of their work.

The U.S.S.R. State Budget includes: (1) the *All-Union Budget* and (2) the State *Budgets of the Union Republics*, divided in their turn into (*a*) Republican and (*b*) Local Budgets.[1] The leading part in the whole budgetary system is played by the All-Union Budget, which handles the bulk of budgetary resources. This budgetary structure makes it possible to put into practice the principles of democratic centralism and a correct nationality policy in a multi-national Socialist State. The State Budget of the U.S.S.R. covers a period of a year, and is approved by the Supreme Soviet of the U.S.S.R. as a law. Budgets of Union Republics are approved by the Supreme Soviets of these Republics.

A considerable part of the centralised distribution of monetary resources is carried out through the machinery of State social insurance and the State property and personal insurance system.

State social insurance is a means of providing material security for manual and clerical workers and members of their families if they lose their capacity to work, temporarily or permanently. It includes free medical aid, the maintenance of rest homes, sanatoria, hospitals, and so on. Social insurance of manual and clerical workers in the U.S.S.R. is administered by trade union bodies out of State funds or the funds of the appropriate co-operative organisations. The source of social insurance funds is the net income of society, received in the form of contributions paid by enterprises, organisations, and institutions, calculated as a definite percentage of the total sum paid in wages to manual and clerical workers.[2] Both the revenue and the expenditure side of State social insurance funds are included

[1] A Union Republic is one of the sixteen constituent States of the Union of Soviet Socialist Republics. The local Budgets mentioned here are those of the regional (or territory), district (or area), town and village Soviets.—*Editor, English edition.*

[2] These contributions are not deducted from the wages' bill; the latter is merely a basis of calculation.—*Editor, English edition.*

in the State Budget and expended by the trade unions. Expenditure on social insurance grows continuously and rapidly. In 1954 it stood at more than 2·9 times the 1940 level.

State property and personal insurance is a means of reimbursing and preventing losses by citizens, enterprises, and organisations, from misfortunes and accidents. It is a State monopoly in the U.S.S.R., and is administered by insurance organs mainly for individual citizens and for collective farms and co-operative bodies. The main source of its funds is insurance payments made by the population and by enterprises and organisations.

Credit in Socialist Economy

Credit is one of the economic tools of socialist society. The need for credit under socialism arises from the existence of commodity production and money economy, and the development of the function of money as a means of payment. Socialist economy presupposes planned organisation of the entire payments turnover of the country with an extensive development of credit. Of enormous importance, moreover, is the rational utilisation on the scale of the national economy as a whole of temporarily liberated monetary resources. Monetary resources accumulate in the economy which are temporarily not in use, and on the other hand socialist enterprises temporarily need supplementary resources.

The primary cause of this is that, in the process of rotation of the resources of socialist enterprises, the dates at which money is received from the sale of output do not coincide with the dates at which outlays in money have to be made for the requirements of production. Part of the resources of enterprises is always held in money form but it is spent at definite intervals. As output is sold, money accumulates, earmarked for the purchase of raw materials and fuel, stocks of which are renewed periodically. As output is sold, the wage fund also steadily accumulates, but wages are paid out usually twice a month. The depreciation fund systematically accumulates in a monetary form, but is spent on new machines and equipment, and on the erection and capital repair of buildings only at definite intervals. The net income of enterprises is used for capital construction after sufficient has accumulated for this purpose. In this way State enterprises have money at their

disposal which is temporarily not in use. Collective farms also have money which is temporarily not in use in the form of (*a*) deductions made from cash income to the indivisible funds, intended to be spent in the future, and (*b*) cash incomes which have not yet been distributed to collective farmers, and so on. During the execution of the Budget, money which is temporarily not in use appears in the form of surpluses of revenue over expenditure, of balances in hand in the current accounts of institutions financed out of the Budget, and of special Budget resources. The growth in the incomes of working people is also accompanied by the formation of increasingly large unspent sums of money in their hands. At the same time socialist enterprises and economic organisations periodically need money temporarily, e.g., for seasonal outlays, for purchase of raw materials, and so on. Thus an economic need for credit arises. Credit is closely connected with the rotation of the resources of socialist enterprises and is one of the means by which this is effected.

Credit in socialist economy is the form in which monetary resources which are temporarily not in use are gathered by the State and used in a planned way to meet the needs of the national economy, on condition of being returnable. In socialist economy, unlike capitalism, loan capital does not exist: by far the greater part of the money entering the credit system is socially-owned property; the rest is the personal property of the working people. These resources are made use of to serve socialist enterprises and the mass of working people. Credit in socialist conditions is supplied in a planned way. In accordance with the requirements of socialist national economy the State lays down *credit plans* in which the amount of credit, its sources and allocation are indicated. The credit plan reflects the national economic plan and has the task of contributing to its fulfilment.

In socialist society, money which is temporarily not in use is accumulated in State credit institutions: banks and savings banks. Thus enterprises operating on the basis of economic accounting have to keep their cash resources on clearing accounts in the State Bank. Cash belonging to collective farms is deposited in current accounts in the State Bank or in savings banks. Money accumulated by socialist enterprises is also concentrated in special banks (for example, deductions by

State enterprises for new construction, indivisible funds in collective farms, etc.). Unspent Budget resources are also kept with the State Bank, as are the cash resources of State institutions, trade unions, insurance, and so on. Credit is also a channel through which the free monetary resources of the population are made available, by inducing them to keep accounts in the State savings banks.

Credit given by the banks is divided into long-term and short-term: *short-term* credit serves the movement of the circulating resources of State enterprises, collective farms, and other co-operative organisations; *long-term* credit mainly serves the sphere of capital construction. The State assists collective farms and co-operative unions with long-term credits (for economic installations); and it assists working people with credits (for individual housing construction, for the purchase of cows by collective farmers, and so on). Sums which they themselves accumulate are also a source of long-term credits to collective farms and co-operative bodies. State enterprises receive resources for capital investment from the State in the form of non-repayable Budget allocations; they also finance capital investments partly from their own resources (the depreciation fund and their net income).

In conformity with the plan, enterprises and economic bodies receive loans in the form of direct bank credits. All enterprises must obtain their loans only from a bank. In the U.S.S.R. there is no commercial credit (the supplying of goods by one enterprise to another on credit). If commercial credit were to be allowed, this would lead to a weakening in control by the banks over the economic activity of enterprises and make possible planless and uncontrolled redistribution of resources among enterprises. The bank grants loans to an enterprise for definite economic measures, such as the seasonal purchase of raw material and the formation of temporary stocks of finished or semi-finished output. This form of credit ensures the direct connection between bank credit and the process of production and circulation.

Direct short-term credits are made by the bank to enterprises and economic organisations on the following main principles: (1) loans must be returned at a definite date; (2) loans are for a stated purpose; (3) bank loans must be secured by material values. The fact that loans are returnable, and at a definite

date, promotes a quicker turnover of the resources of economic organisations and enterprises, and facilitates rouble control by the bank. The requirement that loans must be secured by definite material values enables the bank to supervise the proper use of the credit for the stated purpose, and links credit with the movement of material resources.

The banks pay a definite interest on deposits and charge a somewhat higher interest on loans. *Interest* in socialist economy is that part of the net income of the enterprise which is paid by them to the bank for the temporary use of money on loan. Under capitalism the level of interest is formed spontaneously, as a result of competition. As against this, in socialist economy rates of interest are fixed by the State in accordance with a plan. The State in doing so starts from the need to give enterprises and organisations a material incentive both to keep their free resources in the banks, and to use their own and borrowed money as efficiently as possible.

Credit under socialism is connected with rational organisation of the resources of enterprises and of settlements between them. In socialist society wide use is made of book-keeping transactions without transfer of cash. Settlements between enterprises and organisations are made through the banks by the transfer of money from the account of one enterprise or organisation to that of another on the instructions of the owners of the accounts. Planned centralisation of accounting and credit functions makes it possible in the U.S.S.R. to use internal clearing accounts (i.e., the cancellation of the mutual claims of economic bodies) on a vast scale, unknown under capitalism. In the U.S.S.R. payments in cash are made between enterprises only for small amounts. Book-keeping settlements replace cash in economic transactions, and thus reduce the amount of money needed in the national economy for purposes of circulation. Book-keeping settlements speed up the turnover of money and of the whole social product, and promote the strengthening of the currency system.

Credit given to State enterprises is of great importance in the organisation of production. A considerable part of the working resources of enterprises is in the form of credit. It promotes the growth of socialist production, rational utilisation and acceleration of the rate of turnover of resources and reduction in the cost of production and increase in the profitability of enterprises.

Socialist credit is a powerful instrument of rouble control by the State of the work of enterprises and economic organisations. Granting credit is bound up with preliminary and subsequent checks on the financial position of the enterprise. For this the credit institutions check fulfilment of plans of income and accumulation, the use of the enterprises' own and borrowed circulating resources for the stated purpose, and so on. When loans are granted the credit institutions check how the enterprise is using its resources and making its payments as they fall due, and also the extent to which the enterprise is financially stable enough to use the credit properly. The credit institutions take steps to improve the efficiency of enterprises in making payments, their economic accounting and the régime of economy.

Banks in Socialist Society

Banking in the U.S.S.R. is in the hands of the Socialist State. *Banks* in socialist society are State institutions which carry out in a planned way in the interests of the socialist economy the supply of credit to enterprises, the financing of capital investments, and settlements and payments in the national economy. Thus banks in socialist society retain their old form but have changed their essential character in comparison with that of capitalist banks.

The banking system of the Soviet Union includes the State Bank of the U.S.S.R. and the specialised State long-term investment banks. The leading position in the banking system is occupied by the State Bank.

The State Bank of the U.S.S.R. is the country's issue bank, short-term credit bank and clearing centre. It performs the following functions:

First, *it controls currency circulation*, the movement of cash in the country. It takes currency out of circulation and *issues currency* according to the plan and by the methods laid down by the Government of the U.S.S.R.

Secondly, *it serves as cashier* for the national economy; i.e., it concentrates in its branches the cash of socialist enterprises, State and voluntary organisations, and issues cash to them for their current payments.

Thirdly, *it provides short-term credit* to those enterprises and

economic organisations in all branches of the national economy (with the exception of building organisations) which are run on the system of economic accounting.

Fourthly, it is a *clearing centre*; i.e., it organises and carries out monetary settlements between enterprises, institutions and organisations within the country.

Fifthly, *it administers the cash side of the execution of the Budget*: it repays payments provided for in the Budget, issues budgetary resources strictly as specified and within the limits of the allocations made, and keeps account of Budget revenues and expenditure.

Sixthly, it holds the *country's foreign currency funds* and settles international accounts on trading and other economic operations between the U.S.S.R. and foreign countries; part of these settlements are effected through the U.S.S.R. Bank for Foreign Trade (*Vneshtorgbank*).

The U.S.S.R. State Bank is the largest bank in the world. It has its subordinate institutions in the republican, territory, regional, and almost all the district centres of the country. By organising settlements through clearing accounts and by credit operations the State Bank fulfils its function of being the most important instrument of the State for rouble control of the financial and economic work of enterprises and organisations. Clearing settlements effected by the State Bank embrace the overwhelmingly greater part of the payments turnover of enterprises and economic organisations.

Long-term investment banks serve particular branches of socialist economy. Their main function is to finance and provide long-term credits for capital investments by enterprises in the appropriate branches of the national economy. All monetary resources allocated by plan to capital investment are concentrated in the appropriate investment banks, which administer all payments for construction, issue funds for building work and supervise its expenditure in conformity with the plan.

In the U.S.S.R. there are: the bank for financing capital investments of State enterprises and building organisations in industry, transport, and posts and telegraphs (*Prombank*); the bank for financing capital investments by State enterprises and organisations in agriculture and forestry, and for long-term credits to collective farms and the rural population (*Selkhozbank*); the bank for financing capital investments in trade and co-operation (*Torgbank*); and the

central bank for financing municipal economy and housing (*Tsekombank*), together with local municipal banks which come under local authorities.

The banks carry out rouble control of production and circulation, and thus assist the strengthening of the régime of economy and economic accounting. This control is effected (i) by financing and granting credits for measures envisaged by plan and in accordance with the actual fulfilment of the plan; (ii) by requiring that loans should be returned in accordance with the appointed dates for achievement of planning targets; (iii) by applying appropriate penalties when the approved regulations for use of funds and the fixed dates for repayment of loans are not adhered to (these penalties include, for example, the exacting of a higher interest rate and withdrawal of the right to receive further credits).

In order to improve the economic work of enterprises and to enforce a strict régime of economy it is necessary to increase rouble control of production by the banks and to bring pressure to bear on enterprises which are badly managed.

It is very important for the strengthening of economic accounting and control by the rouble that the State Bank approaches differently the allocation of credit to enterprises which are working well and enterprises which are working badly. To enterprises which have not fulfilled their tasks in reducing costs, or their accumulation plans, or have not preserved their own circulating resources, a harsher credit and settlements régime is applied, which may go as far as ceasing to give further credit, the calling-in before they are due of loans previously given, and other measures. At the same time, enterprises which have worked well receive a number of benefits in connection with credit, especially in the form of increased loans. This differentiated approach enhances the role of rouble control by the bank in stimulating an improvement in the quality of an enterprise's work and observance by it of a régime of economy.

The banks work on the basis of economic accounting. The net income of a bank is the difference between the amount it receives in interest on the one hand and the total interest it pays out, together with the cost of maintaining its machinery on the other.

On the basis of the growth of socialist economy and the development of credit relations the turnover of the banks is continuously increasing. Total credit investments by the State

Bank in the national economy amounted to 190 milliard roubles at the end of 1954, 340 per cent of the 1940 level.

State savings banks accept cash deposits from individual citizens and from collective farms and voluntary organisations, paying a definite rate of interest on deposits and rendering services to the working people in paying their accounts, e.g., for municipal services, rent, etc. The steady increase in the deposits placed in the savings banks by the population is an index of the continuous improvement of the material well-being of the working people. By the end of 1954 total deposits by the population in the savings banks amounted to 48·4 milliard roubles, compared with 18·5 milliard in 1950. Savings banks also effect operations in connection with State loans: they pay out lottery prizes and interest.

Currency Circulation in Socialist Economy

Soviet money is a gold token, a universal equivalent. As stated above, its stability is primarily assured by the vast commodity stocks held by the State and released for sale at fixed prices. Soviet currency also has a gold backing.

The steady growth of socialist production and commodity turnover constitutes the firm foundation of Soviet money. Of great importance for increasing the purchasing power of the Soviet rouble is the reduction of prices, based on the reduction of the cost of production and costs of circulation and on increasing the volume of commodities available.

Soviet money circulates in the form of 10-, 15-, 50-, and 100-rouble banknotes, which are backed by gold, precious metals, and other assets of the U.S.S.R. State Bank. In addition to banknotes, 1-, 3-, and 5-rouble State treasury notes, and metal coins of small denominations, are also in circulation.

Soviet money can fulfil in a normal way its role as a gold token if the amount of this money available is in accordance with the actual requirements of the national economy for means of circulation and of payment.

In socialist economy currency circulates in conformity with the economic law that the quantity of money required for commodity circulation is determined by the sum of the prices of the commodities in circulation and the velocity of circulation

of money. Book-keeping settlements without cash payments, made in the course of commodity circulation, have the effect of reducing the amount of currency required. The total sum of currency in circulation, required by society over a definite period, depends in addition on the total currency payments which are made over the period involved. In socialist economy these payments include wage payments, money payments for work-days, lottery prizes, and others. Current payments by the population include house-rents, taxes, savings bank deposits, and others.

Thus in socialist society the quantity of currency required in circulation is determined by the sum-total of prices of the commodities sold for cash, the size of current payments in cash, and the velocity of circulation of currency. Normal functioning of monetary circulation is an important condition for the planned development of the national economy.

On the basis of the law of planned development of the national economy and utilising the law of currency circulation, the Socialist State plans the circulation of currency in the country in inseparable connection with the planning of the entire national economy as a whole. In the Soviet Union emission is strictly centralised. Currency is issued into circulation by the State Bank of the U.S.S.R., and each supplementary issue by the State Bank is made by a Government decision. The bulk of the cash issued by the State Bank is used in conformity with plans to pay wages, to make money payments on account of work-days, and to pay for State purchases, compulsory and voluntary, of agricultural produce from collective farmers. In the reverse direction the main channel along which money returns to the Bank is the receipts of trading organisations, which provide more than four-fifths of all State Bank receipts, and also the receipts of municipal undertakings, transport, and posts and telegraphs, which are paid into the Bank daily.

Currency is also issued from the State Bank to pay interest, lottery prizes and redemption of bonds of State loans, pensions, allowances, insurance moneys, small accounts, etc. The State Bank regularly receives money on account of taxes and other payments under the Budget, and also of deposits in the savings banks, insurance contributions, and so on. Thus a mass of currency continuously passes through the branches of the State Bank.

One of the essential conditions influencing currency circulation is the relationship between the monetary incomes of the population on the one hand, and the volume of trade and of services which are paid for by the population on the other. A balance of money incomes and expenditures of the population is compiled in order to ascertain these relationships and to ensure in the national economic plan the requisite proportions between the increase in the money incomes of the population and the increase in the corresponding total mass of commodities and chargeable services. In this balance all the money incomes and expenditures of the population which are due to take place in the planned period are taken into account. Definite proportions in the movement of currency laid down for the various elements in the national economic plan (the wage-fund, commodity turnover, the State Budget, etc.) make it possible to fix the appropriate plan targets in the sphere of currency circulation.

An important instrument in planning currency circulation is the cash plan of the State Bank, which has to be approved by the Government. The *cash plan* is a plan of the cash turnover for the whole system of the State Bank. It shows all the cash receipts expected by the Bank in the planning period concerned, and all its cash payments. In compiling it, the balance of money incomes and expenditures of the population is taken into account. It therefore takes into account the volume of retail trade, the volume of procurements of agricultural produce, the sum-total of wages of manual and clerical workers, and other indices which determine the size of cash receipts and payments. The cash plan makes provision for the emission of currency and its withdrawal from circulation, in accordance with the relationship between the cash income and expenditure of the State Bank over the country as a whole.

The State Bank also regulates currency circulation in the country by means of the credit plan.

The planned organisation of currency circulation makes it possible to increase or reduce the total mass of currency and to provide the right quantity of currency required for circulation at each period, in every district, and throughout the country as a whole. In this way currency circulation is put on a firm footing.

The currency reform at the end of 1947 was of tremendous importance in stabilising the Soviet currency system.

In the *currency reform*, the former currency, which had been devalued to a certain extent during the war, was exchanged for new 1947 currency of full value, in accordance with conditions which were laid down. Unlike the currency reforms in capitalist countries, carried through by worsening the conditions of the working people, the Soviet currency reform was carried out in the interests of the working people. The wages of manual and clerical workers continued to be paid at the same rates, but in new money of full value. The currency reform was accompanied by a reduction in the prices of commodities. It eliminated the effects of the war in the sphere of currency circulation, restored the full-value Soviet rouble, increased the importance of money in the national economy, facilitated the return to retail trade at uniform prices without ration-cards, and led to a rise in the real wages of manual and clerical workers and the real incomes of the collective farmers.

Currency circulation was put in order, the production of consumer goods increased, retail trade expanded and the prices of goods were reduced. All these factors led to a rise in the purchasing power of the rouble and of its exchange rate. From March 1, 1950, the Soviet Government raised the official exchange rate of the rouble; and the rate was henceforth fixed directly in terms of gold, in conformity with the gold content of the rouble, instead of on the basis of the dollar, as had been laid down in 1937.

In socialist economy there is a *State foreign currency monopoly*, i.e., the Socialist State handles all accounts with foreign States and the purchase, sale and possession of foreign currency. The State foreign currency monopoly and the monopoly of foreign trade make Soviet currency independent of the changeable situation on the capitalist market. This independence is constantly reinforced by the accumulation of gold reserves and the favourable trading and payments' balances of the U.S.S.R.

BRIEF CONCLUSIONS

(1) The finance of socialist society includes the State Budget, the finances of socialist enterprises, State social insurance, State property and personal insurance, and various forms of credit.

(2) The State Budget is the main form by which a centralised

fund of monetary resources is formed and utilised in a planned way to meet public needs. The main source of the revenue side of the Budget is the net income of society, which is primarily used to finance economic construction and cultural development.

(3) Credit in socialist society is a method of concentrating in State hands money which is temporarily not in use, and using it in a planned way, on condition of repayment, for fulfilling the needs of socialist economy. Interest is the payment fixed by the State for the temporary use of money loans; its source is the net income of enterprises. Credit is effected by the banks and by the savings banks. There are two kinds of banks in the U.S.S.R.: the State Bank, which is the bank of issue, the short-term credit bank, and the centre of accounting for the country; and the specialised State long-term investment banks. The banks carry out rouble control in respect of production and circulation, and assist in strengthening economic accounting.

(4) The Socialist State plans currency circulation in the country on the basis of the law of planned development of the national economy and the law of currency circulation. By the planned organisation of currency circulation in socialist economy, the total mass of currency is made to conform to the cash requirements of commodity circulation. On the basis of the growth of production, increase in commodity turnover and reduction of prices the Socialist State ensures a strengthening of currency circulation and rising purchasing power of the rouble.

CHAPTER XXXIX

SOCIALIST REPRODUCTION

The Essence of Socialist Reproduction

Continuous renewal of the production of material wealth, or reproduction, is a condition for the existence and development of all societies, including socialist society.

The basic tenets of the Marxist-Leninist theory of reproduction retain their full force in both socialist and communist society: simple and extended reproduction, the total social product and the national income, the division of social production into the production of means of production and the production of articles of consumption, the priority growth of production of means of production under extended reproduction, accumulation as the only source of extended reproduction, the need for definite proportions between the different parts of the total social product. In planning the national economy, socialist society cannot avoid applying these propositions.

But reproduction in socialist economy is fundamentally different from reproduction under capitalism.

In conformity with the requirements of the basic economic law of socialism, socialist reproduction is subordinated to the purpose of securing the maximum satisfaction of the constantly growing material and cultural requirements of the whole of society, whereas capitalist reproduction is subordinated to the task of obtaining maximum profits for the capitalists.

Capitalist reproduction takes place blindly, and is periodically interrupted by economic crises, whereas *development without crises, and continuous extended reproduction,* are characteristic features of the socialist mode of production. The Socialist State takes the law of planned development of the national economy as its basis, and conforms in all respects with the requirements of the basic economic law of socialism. From this starting-point, through the planning system, it determines the rate of development of the national economy, the proportions

and connections between its various branches, and the volume of accumulation and consumption.

The process of reproduction taken as a whole is primarily the process of reproduction of the *social product*. In the reproduction of the social product, the leading part is played by the reproduction of the means of production, primarily the *instruments of labour*. Continuous augmentation and improvement of the instruments of labour is a necessary condition for technical progress. Socialist reproduction is carried out on the basis of a rising level of technique. In addition to the instruments of labour, other elements of the means of production are also reproduced—thus existing factory buildings are extended and new ones are erected and equipped, new means of transport are brought into being, and the production of raw materials is increased.

Extended reproduction of the means of production is a necessary condition for extending the production of articles of consumption (clothes, footwear, food products, etc.).

A high rate of reproduction of the social product is characteristic of socialist society. This is primarily because exploiting classes and their parasitic hangers-on do not exist in socialist society, there are no crises or unemployment, the labour resources of society are used in a planned and efficient way, and the productivity of labour increases consistently and rapidly. High rates of growth of the social product are made possible by socialist emulation and by socialist methods of economic management—systematic application of the régime of economy, use of national economic funds in a planned way, improvement of economic accounting, and constant reduction of the costs of production.

The following data indicate the high rate of socialist reproduction. The gross output of large-scale industry in the U.S.S.R. was 35 times as large in 1954 as it was in 1913 (in comparable prices)—the production of means of production was nearly 60 times, and of electric power more than 75 times as large. The chemical and engineering industries developed at an even more rapid rate. In the U.S.S.R. the total social product was already 11 times as large in 1954 as in 1928 (in comparable prices).

The rate of growth of industrial production in the U.S.S.R. is many times as great as in the capitalist countries. The average annual rate of growth of industrial output in the U.S.S.R. during the last 25 years (excluding the war years) was 18·2 per cent, while in the U.S.A. it was 2·4, in Britain 3·6 and in France 2·1 per cent.

In the process of socialist reproduction, *labour-power is reproduced.* The planned supply of labour-power to particular enterprises is one of the basic conditions for extended socialist reproduction. As the national economy expands, the size of the working-class continuously increases. Labour-power is attracted by individual enterprises and economic organisations for all branches of social production in an organised way. Industry, building, transport and agriculture are supplied with skilled labour, in conformity with the needs of the national economy, through the State system for training labour reserves, and through a special network of schools, training courses, technical colleges, and places of higher education. Labour is allocated in a planned way to branches of the national economy and particular enterprises. The continuous improvement of the level of skill and general culture of the mass of workers as a whole is a characteristic feature of the reproduction of the labour force.

In socialist society extended reproduction is also the *extended reproduction of socialist relations of production.*

This signifies reproduction of (*a*) socialist property in both its State and its co-operative collective farm forms; (*b*) relations of comradely collaboration and socialist mutual aid by the workers in the process of producing material wealth; (*c*) mutual relations between workers in the distribution of articles of consumption in conformity with the quantity and quality of the work of each worker.

Socialist relations of production are free from the extremely profound contradictions which are inherent in capitalist production relations. The reproduction of capitalist relations of production involves the increasing exploitation of labour by capital, and the growth and deepening of class contradictions between the exploiters and the exploited; and this inevitably leads to the revolutionary downfall of capitalism. The reproduction of socialist relations of production involves the strengthening of the alliance between the two friendly classes (the working class and the peasantry), and of the intelligentsia integrated with them; the consolidation of the moral and political unity of society; and the gradual effacing of class boundaries and social distinctions between man and man. In the process of extended reproduction there takes place the gradual transition from socialism to communism.

The National Wealth of Socialist Society. The Structure of the Total Social Product

The *national wealth* of socialist society consists of all the material wealth which is at its disposal.

(1) The first element in the national wealth of socialist society is the *production funds* of the economy, i.e., the means of production. These are subdivided into (*a*) the fixed production funds, and (*b*) the circulating production funds of the national economy. The national wealth of socialist society also includes natural resources which have been involved in the process of reproduction (cultivated land and land suitable for cultivation, mineral deposits, forests, waters, and so on).

The *fixed* production funds of the national economy are State or co-operative collective farm means of labour which function in all branches of material production (buildings used for production, machines, machine tools, equipment, installations, etc.). The *circulating* production funds of the national economy are the objects of labour, which are both engaged in the production process itself and held in stock by State enterprises, collective farms and other co-operative bodies (raw materials, fuel, etc.).

(2) The second element in the national wealth is the circulation funds of the national economy. They include stocks of finished output stored by State productive enterprises, collective farms, producers' co-operatives, and State and co-operative trading enterprises and organisations.

(3) The third element in national wealth is the material *reserves* of the State and the co-operatives and collective farms, together with emergency stocks.

(4) The fourth element in the national wealth is the *non-productive funds* of the national economy representing State or co-operative collective farm property which serves the purpose of non-productive consumption over a long period: the housing fund and the buildings of cultural and welfare bodies (schools, theatres, clubs, hospitals, etc., with their equipment).

Such are the main elements of the national wealth representing social, socialist property.

The national wealth also includes the *personal property of the population*, personal property which increases on the basis of the continuous growth of social, socialist property.

An important part in the reproduction of material wealth is played by the accumulated experience in production, the knowledge and skill of the working people of socialist society, and the varied spiritual wealth of the country. "The level of skill of the existing population is always a prerequisite of all production, and is therefore the main accumulated wealth." (Marx, *Theories of Surplus-Value*, 1936, Russian edition, vol. III, p. 229.)

During the Soviet Five-Year Plans the national wealth of the U.S.S.R. increased tremendously. The fixed production funds of the economy alone had grown six-fold in comparison with 1913 by the end of 1940, and about twelve-fold by the end of 1954.

Under capitalism by far the larger part of the national wealth belongs to the exploiting classes, and wealth is augmented in the form of the accumulation of capital, leading to the impoverishment of the mass of the people. Capitalist relations give rise to fictitious wealth, represented by shares, the price of land, etc. In socialist society the whole of the national wealth is the property either of the State (i.e., of the whole people), or of the collective farms and other co-operative organisations, or is the personal property of the working people. Socialism knows no such thing as fictitious wealth: all the wealth of socialist society is *real* wealth. As the national wealth of socialist society grows, the material well-being and the cultural level of the whole people rise.

National wealth includes all the material wealth which is possessed by socialist society at a given moment. In other words, the national wealth reflects the results of the whole preceding development of society. The total social product, on the other hand, represents the material wealth created by society over a particular period, such as a year.

The social product in socialist economy arises in two forms: (*a*) the physical or material form, and (*b*) the value or monetary form. The total production of socialist society is divided into two large departments: *the production of means of production* which are to re-enter the process of production (Department I), and the *production of articles of consumption*, which are to satisfy the needs of the population (Department II). In conformity with this, the social product in its *physical or material* form falls under either means of production or articles of consumption.

In practical economic activity the division of the total social product into means of production and articles of consumption takes place as a rule in accordance with the actual utilisation of the output. Department I comprises all production devoted to productive needs. It includes the products of heavy industry consisting of means of production, part of the products of the light and food industries, which are used as raw material and are processed, buildings used for production purposes, and also agricultural products used productively—seeds, cattle, fodder and agricultural raw material for use in industry.

Department II comprises all production devoted directly to satisfying the personal needs of the population, including housing, and also that part of the social product expended in institutions and organisations of the non-productive sphere, for instance, construction of schools and hospitals, and the heating and lighting of non-productive buildings, etc.

In Department I it is essential to distinguish between the production of means of production for Department I and the production of means of production for Department II. The production of means of production, and especially the production of instruments of labour for Department I, plays the leading role in the process of reproduction.

Extended socialist reproduction requires the constant renewal and increase of the production of both means of production and articles of consumption, in the definite proportions laid down by the national economic plan.

In its value the social product is divided into: (1) the value of used-up means of production, which has been transferred to the product; (2) the new value which labour has created for itself; (3) the new value which labour has created for society. The social and economic nature of each of these parts of the value of the social product is essentially different from its nature under capitalism. In the process of socialist reproduction, national economic funds function in place of constant and variable capital, and the net income of society takes the place of surplus-value.

The process of socialist reproduction presupposes in the first place that the used-up means of production are *replaced* according to plan by a definite part of the total social product, in kind and in value. Fixed funds are replaced in kind by partial or complete substitution of new for old machines, buildings and plant. Fixed funds are replaced in value through the depreciation fund. The *depreciation fund* of the national economy in the U.S.S.R. is set aside to make possible the capital repair of fixed funds during the whole period in which they function, and the replacement of the value of those which have been used up.

The process of socialist reproduction also presupposes that articles of consumption must be newly created by workers in material production to replace those which have been distributed according to work done and used to meet the personal needs of these workers and their families.

Finally, in the process of socialist reproduction the workers in material production create by their labour the product for society, earmarked for socialist accumulation and for the satisfaction of the material and cultural needs of society (education, health, administration, and the defence of the country).

The Relationship between the Two Departments of Social Production

Through the planning system there are established in the process of socialist reproduction the necessary proportions between the production of means of production and the production of articles of consumption, between the various branches of the national economy, between production and circulation, between accumulation, consumption, reserves, and so on. These proportions are established in conformity with the requirements of the basic economic law of socialism and the law of planned (proportionate) development of the national economy.

The most important proportion in socialist reproduction is a correct relationship between Department I and Department II. Department I, producing the means of production, plays the determining role in the whole economy. Without priority for the growth of production of the means of production, extended reproduction is altogether impossible.

> "To expand production (to 'accumulate' in the categorical meaning of the term) it is first of all necessary to produce means of production, and for this it is consequently necessary to enlarge that department of social production which manufactures means of production." (Lenin, *A Characterization of Economic Romanticism*, Moscow, 1951, English edition, p. 44.)

Lenin described priority for the growth of production of the means of production, relative to the production of articles of consumption, as an economic law in conditions of extended reproduction.

The law of priority growth of the production of means of production assumes even greater importance under socialism than under capitalism. A more rapid growth of Department I compared with Department II is a necessary condition for ensuring the uninterrupted advance of socialist production on the basis of higher techniques.

Priority for the growth of the production of means of production (above all, of heavy industry) is a necessary prerequisite for the extensive introduction of up-to-date technique into all branches of socialist production and the systematic raising of the productivity of labour.

Priority for the growth of production of the means of production means that industry develops more rapidly than agriculture. In socialist economy proportions between industry and agriculture are fixed in such a way as to make possible the continuous growth of agricultural production as well as industrial production.

Only the priority for the growth of production of means of production—and that growth more rapid than under capitalism—can ensure a systematic increase in the production of consumer goods and steady improvement in the people's welfare. Uninterrupted and rapid growth of heavy industry, running ahead of the growth of the other branches of industry and the national economy, is the indispensable condition for stable progress in agriculture and in the light and food-producing industries which produce consumer goods.

Thus in conditions of extended socialist reproduction in which rapid technical progress is taking place, it is a characteristic of the development of production that branches producing means of production (Department I) grow more rapidly than branches producing articles of consumption (Department II). At the same time, in socialist society, the production of articles of consumption increases continuously in absolute terms; this is expressed in the growth of the output of agriculture and of the light and food-producing industries, in the expansion of house-building in town and country, and in the extension of commodity turnover.

The proportion of means of production to total industrial output in the U.S.S.R. was 34 per cent in 1924–5, 58 per cent in 1937, and approximately 70 per cent in 1953.

The industrial production of consumer goods in the U.S.S.R. increased fourteen-fold between 1925 and 1954. Home trade in 1954 was more than nine times as great as in 1926 (in comparable prices).

The priority growth of the production of means of production as the economic law of extended reproduction does not exclude the fact that in particular years it may happen to be practically

expedient and necessary, in order to put an end to lagging behind in the production of consumer goods, and to overcome the partial disproportions arising from this, to make this production catch up, accelerating the development of certain branches of agriculture or of the light or food-producing industries.

Thus, in recent years the Communist Party and the Soviet State, basing themselves on the uninterruptedly growing might of heavy industry, have worked out and are successfully putting into effect a complete programme for a sharp rise in agricultural production. Fulfilment of this programme will enable the tempo of growth of the production of consumer goods to be accelerated and a further rise in the standard of living of the Soviet people to take place. The carrying out of these tasks demands a steady growth of heavy industry. Without machinery, without all-round mechanisation of arable and livestock farming, a sharp rise in agricultural production cannot be secured. All this testifies to the fact that priority growth of the production of means of production is an indispensable basis for the general line of development of socialist economy.

> "The results of industry's work during the last few years confirm anew the correctness of the general line of our Party on priority development of heavy industry. In steadily carrying out this line, the Party has been guided by the behests of the great Lenin on the need for more rapid development of the production of means of production, as compared with the production of consumer goods, as the indispensable condition of extended socialist reproduction.
>
> "Heavy industry must, as before, develop faster than the other branches of the national economy. The higher the level of development of heavy industry in our country, determining the further advance of all branches of the national economy, the more fully shall we be able to satisfy the continually growing demands of the Soviet people and the more rapidly to create an abundance of consumer goods and effect the transition from socialism to communism." (*Decisions of the July, 1955, Plenum of the Central Committee of the C.P.S.U.*)

In 1955 industrial production of consumer goods (group B industries) was 72 per cent higher than in 1950 (as against the 65 per cent provided for in the Five-Year Plan). At the same time,

the production of means of production (group A industries) was 84 per cent (compared with 80 per cent, the figure laid down in the Plan). The rapid growth of heavy industry has created a firm basis for successful development of the light and food-producing industries and of agriculture.

How does exchange take place in socialist economy between Department I and Department II and within each of these Departments?

In the first place, exchange takes place between the different branches of Department I.

Part of the means of production created in Department I remains in that Department and enables simple reproduction to take place. This part is used to replace means and objects of labour which have been partly or fully used up (replacement of worn-out machines, capital repair of equipment, renewal of consumed stocks of raw materials, and so on). A second part of the means of production ensures extended reproduction in the various branches of the economy which form part of Department I. For example, the coal and oil industries supply fuel to the engineering branches and receive from them the equipment they themselves need; the metallurgical industry supplies the building industry with the metal it needs, and in its turn uses raw materials from the ore-mining industry to increase the quantity of metal smelted, and so on.

Thus exchange takes place according to plan between the branches of Department I, involving those means of production which are used to maintain and extend production in these branches. As was stated above, within the limits of the State production sector the means of production which are produced are not in essence commodities, but are distributed as material and technical supplies, retaining merely the form of commodities.

Secondly, exchange takes place between the different branches of Department II. The output of Department II consists of articles of consumption. Part of this output is transferred to workers in the Department for their personal consumption: it is exchanged, through the channels of commodity circulation, for the wages of workers and employees and for the money incomes of collective farmers. Some of the articles of consumption produced in the collective farms are distributed and consumed in the collective farms themselves, and do not

assume the form of commodities or pass through the channels of market circulation.

Thirdly, exchange takes place between Department I and Department II. Part of the means of production produced in Department I have to be used to replace means of labour which have been partly or fully used up in Department II, to renew stocks of raw and other materials, and of fuel, which have been consumed in that Department, and to enlarge the means of labour and stocks of raw and other materials and fuel which Department II needs for extended reproduction. Part of the output of articles of consumption in Department II is exchanged through the trade network for the wages of workers in Department I. The rate at which production is extended and technical progress advances in the branches of Department II depends primarily on the quantity and quality of the means of production which they receive from Department I. The leading role of Department I in relation to Department II is determined by this fact.

Lenin pointed out that Marx's formula on the relationship between Departments I and II of social production—the relationship of $I\ (v+s)$ to IIc—remains in force for socialism and communism. However, the social and economic relations concealed behind this formula are radically changed.

Under extended socialist reproduction Department I must produce sufficient means of production to make possible the continuous growth of production, on the basis of a rising technical level in both Departments, with a more rapid growth in Department I. On the other hand, Department II must produce sufficient articles of consumption to satisfy the continuously growing needs of workers in both Departments (both those who were working previously, and new workers who have been drawn into production), and of workers employed in non-productive branches. In each particular period part of the means of production and articles of consumption which are produced is used to increase reserves.

In the anarchical conditions of capitalist production, in which the demand of the mass of the working people is restricted in terms of available purchasing power, the most difficult problem for capitalist reproduction is that of the realisation of the social product. Socialist production develops according to plan and without crises, and does not come up against the difficulties of

realisation which are inherent in capitalism. This is because the uninterrupted growth of the purchasing power of the population creates a constantly expanding demand for the output of industry and agriculture.

However, this does not mean that in the course of extended socialist reproduction particular proportions in the national economy may not sometimes be disturbed; for example, through miscalculations in planning, as a result of not taking the requirements of the law of planned development of the national economy sufficiently into account; or natural calamities may occur, such as droughts, which have a harmful influence on production. The Socialist State sets aside the necessary reserves to forestall or eliminate the individual disproportions in the economy which arise from such causes.

The Formation and Function of Social Funds in Socialist Economy

The socialist mode of production also determines the forms of distribution of the total social product appropriate to it. Society, in the person of the Socialist State, distributes the social product in a planned way in conformity with the requirements of the basic economic law of socialism.

As stated earlier, the total social product, after subtraction of the part which is used to replace means of producton which have been consumed, forms the national income of socialist society. The national income is divided into two large funds, the *accumulation fund*, which is used to bring about the continuous growth and improvement of socialist production, and the *consumption fund*, which is used to satisfy the continuously growing material and cultural needs of the whole of society.

The bulk of the accumulation fund is allocated to *the extension of production*. The scale of production in socialist society grows regularly from year to year, and at rates which the capitalist world has never achieved.

A second part of the accumulation fund is allocated to *capital construction in the cultural and welfare field*. This includes carrying out capital work on a vast and increasing scale in the building of schools, hospitals, and municipal institutions.

Finally, a third part of the accumulation fund forms the *reserve* or *insurance fund* of society. State reserves of raw materials,

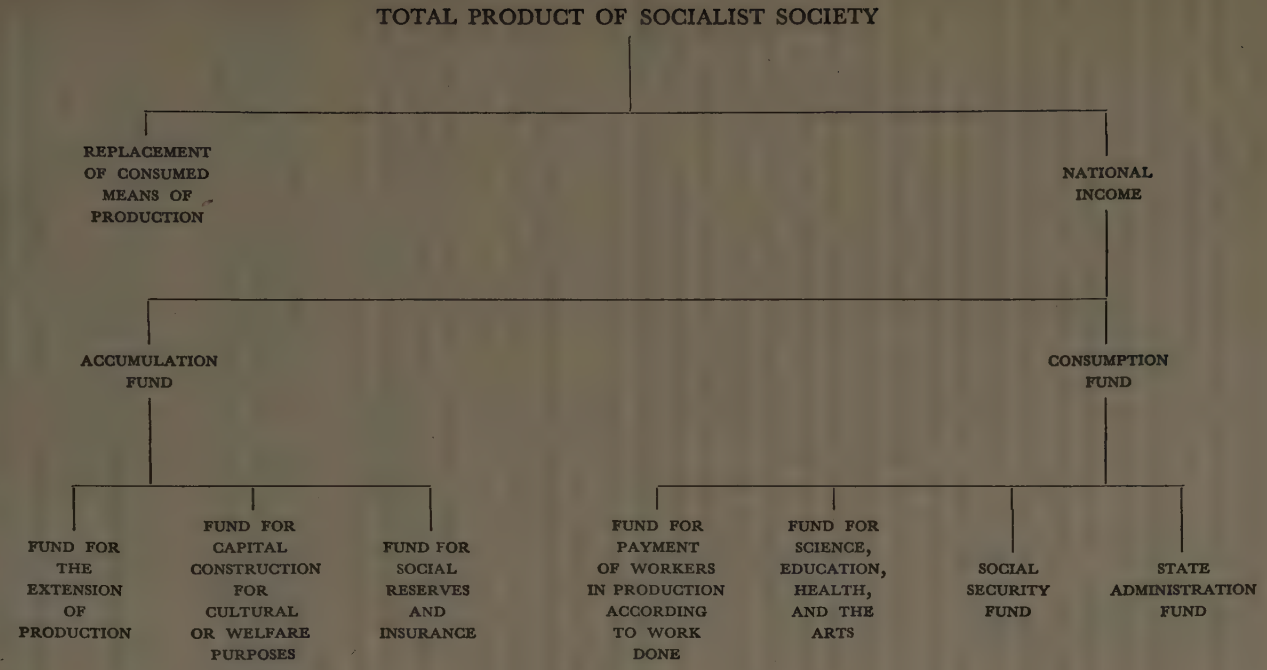
TOTAL PRODUCT OF SOCIALIST SOCIETY
REPLACEMENT OF CONSUMED MEANS OF PRODUCTION
NATIONAL INCOME
ACCUMULATION FUND
CONSUMPTION FUND
FUND FOR THE EXTENSION OF PRODUCTION
FUND FOR CAPITAL CONSTRUCTION FOR CULTURAL OR WELFARE PURPOSES
FUND FOR SOCIAL RESERVES AND INSURANCE
FUND FOR PAYMENT OF WORKERS IN PRODUCTION ACCORDING TO WORK DONE
FUND FOR SCIENCE, EDUCATION, HEALTH, AND THE ARTS
SOCIAL SECURITY FUND
STATE ADMINISTRATION FUND

Chart of the Distribution of the Total Product in Socialist Society

fuel and foodstuffs, and reserve funds in the collective farms, make it possible to avoid hold-ups in the process of reproduction.

The consumption fund in its turn consists of two parts. The basic part of this fund is the *fund for the payment according to work done* of workers in socialist production, which is used, in accordance with the economic law of distribution according to work done, to pay wages to the manual and clerical workers employed in production, to pay for the work of collective farmers, etc. A second part is the *fund of social consumption*, used to cover the varied needs of socialist society as a whole.

Part of the fund of social consumption is expended on *social and cultural purposes*: it covers the growing needs of socialist society in science, education, health, the arts, and other branches of culture and welfare. It is from this fund that, in conformity with the economic law of distribution according to work done, the workers in the cultural and welfare services receive their wages.

Part of the fund of social consumption forms the *social security* fund, which provides State assistance to mothers with many children, and those without a breadwinner, to children, old people and invalids, in conformity with the right, recognised by the Soviet State, to material security when incapable of work and in old age.

Part of the fund of social consumption is used to cover *outlays on administration*—to pay workers in the machinery of government, etc.

Part of the national income is used for the *defence* needs of the country. While the danger exists of military attacks on the U.S.S.R. by imperialist aggressors, it is of extremely great importance to strengthen the defensive capacity of the land of socialism.

As pointed out earlier, the greater part of the national income (about three-quarters) is expended on satisfying the personal material and cultural needs of the working people in the U.S.S.R.

Socialist Accumulation. Accumulation and Consumption in Socialist Society

The source of extended socialist reproduction is socialist accumulation. *Socialist accumulation* is the utilisation of part of the net income of society, consisting of means of production

and articles of consumption, to extend production, and also to constitute material reserves and increase the non-productive social and cultural funds.

As a result of socialist accumulation there is a growth of material values owned by the State, the co-operatives and the collective farms. This means an increase in the national wealth of socialist society. The accumulated part of national income is also expressed in money terms. The major part of the monetary accumulations of all branches of the national economy, and part of the money in the hands of the population, is mobilised through the State Budget for public needs.

Socialist accumulation takes place by means of capital investments in the national economy. *Capital investments* are the total outlays used over a particular period to create new productive and non-productive fixed funds and to reconstruct those already in existence. A certain part of the capital investments in the national economy is used to replace fixed funds which have been consumed. In a planned and systematic way the Socialist State carries out capital works on a vast scale, such as the building of new factories, works, power-stations and mines, and the extension of existing ones, and the building of State farms, machine and tractor stations, means of transport and communications, housing, schools, hospitals and children's institutions.

The volume of State capital investments in the national economy of the U.S.S.R. was as follows (in present prices):

1929–32	68 milliard roubles.
1933–37	158 milliard roubles.
1946–54	over 900 milliard roubles.

Capital investments are mainly allocated to the extension of socialist industry. From capital investments more than 1,500 large-scale industrial enterprises were built and put into operation during the first Five-Year Plan, 4,500 during the second, and approximately 3,000 during the 3½ years of the third Five-Year Plan. In 1946–54 more than 8,000 State industrial enterprises were constructed or rebuilt. Many thousands of cultural and welfare institutions were set up in addition to industrial and agricultural enterprises.

Socialist accumulation is based on continuously increasing the productivity of social labour and systematically reducing the costs of production.

In socialist economy there is a *high rate* of accumulation, such

as capitalism has not achieved even in the most favourable periods of its development. This is because socialist economy is planned and free from crises, the level of capital investment in the national economy is high, means of production and labour resources are used in social production in a planned and rational way, and parasitic consumption is absent.

In the U.S.A. in 1919–28 the proportion of the national income allocated to accumulation averaged 10 per cent, and in the decade from 1929 to 1938 it averaged only 2 per cent. In the U.S.S.R. the fund of accumulation (including reserves) is approximately one-quarter of the national income.

Socialism has abolished the antagonistic contradiction between production and consumption which is characteristic of capitalism. Extended socialist reproduction is based on priority growth of the production of means of production, and along with this presupposes a steady increase in production of consumer goods.

Under capitalism articles of consumption are divided into the necessary means of consumption of the working masses and luxury goods which form part of the consumption fund only of the exploiting classes. This division is inherent in capitalism and is caused by the existence of antagonistic classes. In socialist society it does not exist; the whole consumption fund is allocated to the working people.

With the development of production, the growth of the national income, and the increase in the volume of socialist accumulation, the consumption funds also increase, and the social and personal needs of the working people are satisfied more and more fully.

The growth of consumption by the people is accompanied by an improvement in its structure: the proportion of high quality goods and products in the consumption funds continuously increases. From 1947 to 1954 the sale of white bread to the population increased by more than 600 per cent, of meat products 150 per cent, of animal and vegetable fats more than 100 per cent, of sugar almost 500 per cent, and of fruits more than 250 per cent. In 1940 manufactured commodities constituted 36·9 per cent of trade turnover, and in 1954 45·2 per cent.

All this means that socialism has an economic law of accumulation which is characteristic of it. *The law of socialist accumulation* involves the continuous growth of national wealth by

means of the consistent utilisation of part of net income to extend production, so that the growing needs of the whole of society may be satisfied. As a result of the general law of capitalist accumulation, increases in the wealth of the exploiting classes are inevitably accompanied by the impoverishment of the mass of the working people. In contrast to this, the operation of the law of socialist accumulation has the result that, as the national wealth increases, so the material and cultural level of the people consistently rises.

Through the planning system the Socialist State fixes for each period definite proportions between the accumulation and consumption funds, taking as its starting point the fundamental tasks of the construction of communism. The Communist Party and the Soviet Government by carrying out far-reaching measures to secure a sharp advance in agriculture and the development of industries producing consumer goods are ensuring an increase in the production of food and manufactured consumer goods.

All aspects of extended socialist reproduction—production, distribution, circulation and consumption—in their unity and inter-connection, are covered by the balance-sheet of the national economy of the U.S.S.R. This balance-sheet, embodied in the national economic plan, expresses the whole process and results of extended socialist reproduction.

In socialist society the capitalist law of population has completely lost its validity. As a result of the operation of that law, parallel with the growth of social wealth, an increasing part of the working population becomes surplus and is driven out of production into the ranks of the unemployed. The socialist system ensures full employment to the whole able-bodied population, and therefore surplus population does not and cannot exist. The population grows continuously and rapidly; the level of material welfare of the people is high; the morbidity and death rates are low, while the able-bodied section of the population is employed fully and rationally. These features together constitute the essence of the *socialist law of population.*

The average annual net growth of the U.S.S.R. population from 1926 to 1939 was approximately 2 millions, or 1·23 per cent. Over the same period the average annual net growth of the population was 0·08 per cent in France, 0·62 per cent in Germany, 0·36 per cent in Great Britain, and 0·67 per cent in the U.S.A. In recent years the

average annual net growth of the U.S.S.R. population has been more than 3 millions. In 1954 the death-rate in the U.S.S.R. was less than half that in 1927, and less than one-third that in 1913. The death-rate is lower in the U.S.S.R. than in the U.S.A., Great Britain or France.

Thus the characteristic features of socialist reproduction are as follows: the whole of social production expands continuously and in a planned way, at a high rate which capitalism is unable to achieve; the size of the population as a whole, including the working class and the intellectual workers, increases consistently and rapidly; the material welfare and cultural level of the mass of the people increases continuously.

BRIEF CONCLUSIONS

(1) Socialist reproduction is the continuous extended reproduction of the total social product, of labour-power, and of socialist relations of production. The advantages of socialist national economy, its planned development without crises, make possible its continuous growth and a high rate of extended socialist reproduction.

(2) The national wealth includes all the material goods which are at the disposal of socialist society. National wealth is made up of the following constituent parts: fixed and circulating production funds of the national economy; funds of circulation; State and co-operative collective farm material reserves and insurance stocks; non-productive funds; and the personal property of the population.

(3) The social product under socialism has two forms, the physical form and the form of value. All of the production of the social product in socialist economy is divided into the production of means of production (Department I) and the production of articles of consumption (Department II). The social product in terms of value includes: the value of means of production which have been consumed; the newly-created value produced by labour for itself; and the newly-created value produced by labour for society. Extended socialist reproduction presupposes that the necessary conformity (proportionality) is maintained between all parts of the social product both in its physical and its value forms. Extended socialist reproduction takes place on the basis of the economic law of priority; that is,

more rapid growth of production of means of production (and, first and foremost, of heavy industry), compared with production of consumer goods.

(4) In socialist society the social product is distributed so as to make possible a continuous increase in socialist production in town and country, the satisfaction of the continuously growing material and cultural needs of socialist society, and the growth of the economic power and defensive capacity of the country.

(5) Socialist accumulation is the utilisation of a part of the net income of society, consisting of means of production and articles of consumption, for the extension of production, the formation of social reserves, and the enlargement of non-productive social and cultural funds. Socialism is free from the antagonistic contradiction between production and consumption which is inherent in capitalism. In contrast to the general law of capitalist accumulation, in virtue of which increases in the wealth of the exploiting classes are inevitably accompanied by the impoverishment of the mass of the working people, the operation of the law of socialist accumulation leads to a consistent rise in the material and cultural level of the people side by side with the growth of national wealth.

(6) In the socialist system the capitalist law of population has lost its validity. The socialist law of population is expressed in the continuous and rapid increase of the population, and in the rational and full employment of the able-bodied section of the population in the interests of society as a whole.

CHAPTER XL

THE GRADUAL TRANSITION FROM SOCIALISM TO COMMUNISM

The Two Phases of Communist Society

As has been confirmed by the entire history of mankind, society develops from lower to higher stages. Communist society, which is the final aim of the struggle for emancipation of the working people in all lands, is the highest and most progressive stage of social development.

Communist society passes through two phases of development: the lower phase known as Socialism, and the higher phase known as Communism. In the first stage, communist society cannot as yet be free from the traditions and traces of capitalism, from whose womb it has emerged. Only the further development of socialism on the basis which it has itself created can lead to the second and higher phase of communist society. Consequently socialism and communism are two stages of maturity of the new communist form of society.

Social ownership of the means of production is the economic basis of both phases of communism. The predominance of social ownership determines the planned development of the national economy. Characteristic of both phases of communist society is the absence of exploiting classes and of the exploitation of man by man, of national and racial oppression. The purpose of production, both in socialist and in communist society, is the maximum satisfaction of the constantly increasing material and cultural requirements of the whole of society. The means of its achievement is the continuous growth and improvement of production on the basis of the highest techniques.

At the same time, the higher phase of communism differs in important particulars from the lower phase, in so far as it is a higher stage in the economic and cultural maturity of communist society.

Even at the stage of socialism, the productive forces attain a high level: socialist production develops constantly at high

rates of growth and the productivity of social labour grows rapidly. But the productive forces of society and labour productivity are still insufficient to provide an abundance of material wealth. Communism presupposes a level of development of the productive forces of society, and of the productivity of social labour, which will provide this abundance.

As distinct from socialism, where there are two forms of social or socialist property—State and co-operative collective farm property—the complete predominance of one form alone, communist ownership of the means of production, will be established at the stage of communism.

Owing to the existence at the stage of socialism of two main forms of socialist production—State and collective farm—commodity production and commodity circulation are retained. At the stage of communism, however when the predominance of one form of property and one form of production—communist—will have been established, there will no longer be commodity production and commodity circulation, and consequently the need for money will disappear.

While, at the stage of socialism, there is no longer an antithesis between town and country, between mental and physical labour, there still exist essential distinctions between them. At the stage of communism these will no longer exist and only inessential distinctions will remain.

There are two classes in socialist society: the working class and the collective farm peasantry. They are friendly to each other, but their status in social production differs; together with the working class and the peasantry, there is a social stratum composed of the socialist intelligentsia. With the abolition of the distinctions between the two forms of socialist property and the elimination of the essential distinctions between town and country, between mental and physical labour, the boundaries between workers, peasants, and intelligentsia will be finally effaced. All will become working members of communist society. Communism is classless society.

At the stage of socialism labour, freed from exploitation, is equipped with advanced technique and is a matter of honour. At the same time, complete mechanisation of all the productive processes has not yet been attained; work has yet to become a prime need of life; the careless attitude of some members of society towards their work has not yet been overcome; there

is still a need for strictest supervision by society of the measure of labour and the measure of remuneration. At the stage of communism, complete mechanisation and automation of the productive processes will have been attained, and labour will be transformed in the eyes of the whole of society from a mere means of life into a prime need of life.

Communism guarantees to all members of society the flowering of their physical and mental abilities. All members of society will be cultured and highly educated people, having the opportunity freely to choose their occupations. Communism presupposes a further development of science, art, and culture on a scale hitherto unknown.

The high level of development of the productive forces and of the productivity of social labour will guarantee an abundance of every kind of material and cultural wealth: which will make possible the advance from the socialist to the communist principle of distribution.

> "In a higher phase of communist society," wrote Marx, "after the enslaving subordination of individuals under division of labour, and therewith also the antithesis between mental and physical labour, has vanished; after labour, from a mere means of life, has itself become the prime necessity of life; after the productive forces have also increased with the all-round development of the individual, and all the springs of co-operative wealth flow more abundantly—only then can the narrow horizon of bourgeois right be fully left behind and society inscribe on its banners: From each according to his ability, to each according to his needs!" (Marx, "Critique of the Gotha Programme", in Marx and Engels, *Selected Works*, 1950, English edition, vol. II, p. 23.)

Such are the main distinctions between socialism and communism.

Elaborating and enriching the Marxist teachings on communism, Lenin formulated the basic principles for the ways of building communist society. Laying down the programme of the Communist Party, Lenin said:

> "In commencing socialist transformations, we must clearly have in mind the aim towards which these transformations are, in the long run, directed; namely, the aim of creating a communist society, not confined merely to the expropriation

of the factories, mills, land and means of production, not confined merely to strict accounting and control of production and distribution of products, but advancing further, to the realisation of the principle: from each according to his ability, to each according to his needs." (Lenin, "Report at the VII Congress of the R.C.P.(B) on revising the Programme and changing the name of the Party", *Works*, 4th Russian edition, vol. XXVII, p. 103.)

The Soviet Union possesses all that is necessary to build complete communism. It has, for this purpose, gigantic material resources and natural wealth, a powerful industry and a highly mechanised agriculture. A further powerful factor in accelerating the development of the Soviet economy towards communism is the creative participation of the masses, expressed in the socialist emulation of the whole people. The Soviet people is being led to communism by the Communist Party, equipped with the theory of Marxism-Leninism, knowledge of the economic laws of socialism and a scientifically based programme for building communist society.

The international conditions in which the building of communism is taking place in the U.S.S.R. have been fundamentally altered since the second world war. Whereas formerly the Soviet Union was the only socialist country, there is now a powerful camp of socialism numbering hundreds of millions of people. The formation of the camp of socialism has brought about a fundamental change in the balance of forces in the world arena and has created a new environment for the building of socialism and communism. In the People's Democracies of Europe and Asia, the foundations of socialism, the first phase of communist society, are being laid. A decisive condition for the victory of socialism and communism in all the countries of the socialist camp is the further consolidation of the power of this camp, and the development of close economic, political and cultural co-operation of the peoples belonging to it.

But alongside the socialist camp there is the hostile imperialist camp. So long as this camp exists, there remains the danger of armed attack on the Soviet Union and the People's Democracies by aggressive imperialist Powers.

Marxism-Leninism teaches that with the abolition of classes and class distinctions, in the higher phase of communism, the State will become unnecessary and will gradually wither away.

But in this respect international conditions have to be considered. To the question—will our State remain in the period of communism as well—Stalin gave the following answer: "Yes, it will, if the capitalist encirclement is not eliminated, and if the danger of military attack from abroad is not abolished, although naturally, the forms of our State will again change in conformity with the change in the situation at home and abroad.

"No, it will not remain and will wither away if the capitalist encirclement is eliminated and is replaced by a socialist encirclement." (Stalin, "Report to the XVIII Congress of the C.P.S.U.(B)", *Problems of Leninism*, 1953, English edition, p. 797.)

The Socialist State is necessary until the danger of attack on the U.S.S.R. and other countries of the socialist camp by imperialist States has been eliminated. Until then, while carrying on a consistently peaceful policy, the Soviet Union and the other countries of the socialist camp must at the same time be ready to repel any hostile attack from without. This requires that the Socialist State be strengthened in every possible way, the economic power of the country increased and its defensive capacity ensured.

The transition to communism cannot be seen as an instantaneous act. It takes place gradually, through an all-round development of the foundations and principles of socialism. Completing the construction of socialist society means at the same time making the gradual transition from socialism to communism.

The gradual transition from socialism to communism does not exclude the possibility of revolutionary leaps in the development of technique, the economy, science and culture. For example, the discovery of new sources of power and new kinds of raw material and the introduction of new technical inventions into production give rise to a real technical revolution. The transition from two forms of social ownership to uniform communist ownership of the means of production, from the socialist principle of distribution according to work done to the communist principle of distribution according to need will mean profound qualitative changes in the economy and in the whole life of society.

The law of transition from an old qualitative state of society to a new one through an explosion, which necessarily applies to a society divided into antagonistic classes, is not binding at

all upon a society which is without antagonistic classes, as is the case with socialist society. The material and cultural prerequisites of communism are formed step by step as the productive forces of socialist society develop, as its wealth and culture grow, as social ownership of the means of production is strengthened and increased, and as the masses are educated in the spirit of communism.

This does not mean that the development of society along the road to communism takes place without internal contradictions having to be overcome. These contradictions, however, as already mentioned, are not antagonistic in character. The Communist Party and the Soviet State, knowing the economic laws of society's development and relying upon them, are able in good time to reveal the contradictions as they arise and take measures to solve them.

The Basic Economic Task of the U.S.S.R.

The Soviet Union is a mighty industrial power. In the tempo of development of its industry the Soviet Union is ahead of all the capitalist countries. In the overall amount of industrial production, in the volume of production of such decisive branches of the national economy as the production of pig-iron and steel, the output of coal and the output of electrical power, the U.S.S.R. is ahead of all capitalist countries except the U.S.A., and holds second place in the world.

However, the task, laid down by V. I. Lenin, of overtaking and outstripping economically the most highly-developed capitalist countries, has not yet been fulfilled. A country's economic might is determined not by the volume of production generally, but by the volume of production taken in connection with the numbers of the population, that is, calculated per head of population. Together with this, the amount of industrial production and especially of heavy industrial production, is of decisive significance.

The *basic economic task of the U.S.S.R.* consists in overtaking and outstripping economically, that is, in production (and, first and foremost, industrial production) per head of population the most highly developed capitalist countries of Europe and the U.S.A. "Only if we outstrip the principal capitalist countries economically can we reckon upon our country being

fully saturated with consumers' goods, on having an abundance of products, and on being able to make the transition from the first phase of communism to its second phase." (J. V. Stalin, "Report to the XVIII Congress of the C.P.S.U. (B)", *Leninism*, 1940, English edition, p. 634.)

The struggle to fulfil the basic economic task of the U.S.S.R. is of decisive significance for the building of communism, for the victory of the socialist system of economy in economic competition with the capitalist system. The decisive advantages in this competition between two opposing systems lie with the socialist system of economy. The advantages possessed by the socialist system of economy make it possible to solve the basic economic task in an historically very short space of time.

To fulfil the basic economic task it is necessary firmly to ensure an uninterrupted advance of the whole of social production, with priority for the growth of the production of means of production.

In order to ensure continuous extension and improvement of production on the basis of advanced technique an enormous increase of production capacity is required in all branches of the national economy, and above all in heavy industry. This increase in production capacity is brought about by the capital construction of socialist enterprises, based on the most up-to-date achievements of science and technique, the technical reconstruction of existing factories and works, replacement of obsolete equipment by new, more productive equipment, modernisation of obsolete equipment, and full and rational utilisation of existing machinery and mechanisms.

To ensure technical progress in all branches of the national economy the Soviet Union possesses a large body of engineers, scientists and skilled workers, a highly-developed heavy industry and up-to-date engineering industry, and a large-scale socialist agriculture. Technical progress in the U.S.S.R. is being realised in conditions of increasing co-operation with the countries of the socialist camp. The exhange of technical experience with other foreign countries is also being extended.

It must not be forgotten that in the capitalist countries, too, technique is not marking time. Under the impact of the arms drive, competition and the pursuit of maximum profits by the capitalists, considerable advances in the technique of production are taking place in a number of branches of the economy

in the capitalist countries, and there is technical progress there. The task is, by utilising the advantages of the socialist system of economy, to surpass the achievements of foreign science and technique. The struggle for technical progress demands resolute overcoming of all manifestations of sluggishness, conceit and complacency, and bold introduction into production of everything new and progressive that is offered by science and by innovators of production in the sphere of technical improvement.

Successful fulfilment of the basic economic task of the U.S.S.R. presupposes as its decisive condition an uninterrupted growth in the productivity of labour in all branches of the national economy. "Communism", wrote Lenin, "is the higher productivity of labour—compared with that existing under capitalism of voluntary, class-conscious and united workers employing advanced technique." (V. I. Lenin, "A Great Beginning", *Selected Works*, 1950, vol. II, Part 2, p. 231.) The tempos of the growth of the productivity of labour in the U.S.S.R. are higher than in capitalist countries. This has made it possible to catch up with the level of productivity of labour in the advanced capitalist countries of Western Europe. But the Soviet Union is still behind the U.S.A. in this respect. To win the victory in economic competition with capitalism it is necessary not only to overtake but also to surpass the advanced capitalist countries in the level of productivity of labour.

The Creation of the Material Production Basis of Communism

The material production basis of Communism which is being created in the U.S.S.R. is large-scale machine production in town and country, based on electrification of the entire country, complex mechanisation and automation, all-round application of chemical processes, and wide application of atomic power for the national economy.

Lenin showed that, at the stage of communism, electrification of the entire national economy would provide industry and agriculture with their technical basis. "Communism is Soviet power plus the electrification of the whole country." (Lenin, "The Work of the Council of People's Commissars. Report Delivered at the VIII All-Russian Congress of Soviets",

Selected Works, 12-vol. edition, vol. VIII, p. 276.) This means that industry, transport, and agriculture will be completely switched over to a new and higher technical basis, associated with electrification.

Electrification of the *entire* national economy is the characteristic feature of the material production basis of communism. With the gradual transition from socialism to communism, electrification is being undertaken on a huge scale. The construction of the largest hydro-electric stations in the world is witness to this.

The socialist planned economy is securing the creation of a *single high-voltage network*, connecting the numerous power-stations in the various economic regions. The electric power-system of the U.S.S.R. is entering a new phase of development. The coming into operation of the Kuibyshev and Stalingrad hydro-electric stations, together with the transmission line linking these stations with Moscow, the Urals and the Donbas, will mean a tremendous step forward in the creation of a single mighty power-system on the territory of the European part of the U.S.S.R. The grid system, i.e., the inclusion of separately-operating power-stations in a single network, enhances the reliability of the power-supply in the various parts of the country and improves the utilisation of power capacities.

As a necessary condition for creating the material production basis of communism, electrification of the entire national economy is inseparably linked with the *all-round mechanisation* of all labour operations, the *automation* of production and use of *chemicals*, and the application of the latest technical achievements.

The putting into effect of all-round mechanisation leads to the replacement of manual labour by mechanised labour, to a rise in the cultural and technical level of the workers and to an increase in the productivity of labour. All-round mechanisation is the prerequisite for going over to automation of production and of the direction of technological processes, and in the last analysis to the creation of an automatic system of machinery in all branches of production.

All-round automation of production means a higher level of development of large-scale machine production and constitutes a characteristic feature of the material production basis

of communism. It leads to the replacement of unskilled labour by skilled, and provides the technical basis for finally abolishing the essential distinctions between mental and physical labour. The transition from partial automation of production processes to an automatic system of machines ensures an enormous increase in the productivity of labour.

The creation of enterprises with complete complex mechanisation and automatic production lines of machine tools, as well as of automatic factories, is among the achievements of the Soviet engineering industry.

The automation of already-operating hydro-electric stations has been carried out in the U.S.S.R. Hydro-electric stations under construction are all to be automatically operated. The control of many power-stations is exercised from a distance by means of telemechanisms. In metallurgical enterprises newly-devised rolling-mills, tube-mills and blooming-mills which are mechanised, with automatic controls, are in use. Automatic control of locks is being introduced in hydro-technical installations. Automatic factories for the production of concrete have been built, in which the automation of production embraces all processes, beginning with the feeding-in and weighing of the raw materials and ending with the emergence of the finished concrete.

If, at the present time, automation of labour processes is no more than a herald of the new technical basis of communism, in time this great achievement of science and technique will be introduced into all branches of production.

A very great revolutionary transformation in the material production base is taking place in connection with the wide application of *atomic power* in production. The discovery of methods of obtaining and utilising the energy within the atom is the highest point reached in the present stage of development of science and technique. This discovery signifies the approach of a new scientific, technical and industrial revolution which will by far exceed in importance the industrial revolutions of the past. A practical solution of the problem of utilising this new form of energy for peaceful purposes has been found in the U.S.S.R. One of the most important ways of using atomic fuel is the production of electric power by atomic power-stations. In the summer of 1954, constructed by Soviet scientists and engineers, the first industrial power-station to use atomic energy, with an effective capacity of 5,000 kw., was put into service; it began to provide current to industry and agriculture in the neighbouring districts. Soviet scientists and engineers

are working on the creation of industrial atomic power-stations with a capacity of 50,000–100,000 kw.

Atomic power-stations enable a colossal amount of labour, fuel and transport to be saved. The atomic industry of the U.S.S.R. provides science and technique with radioactive elements which are already being used on an ever wider scale in industry, agriculture and medicine. In industry, radioactive substances are used to determine the quality of and reveal any defects in various kinds of material, to facilitate automatic control, to assist in prospecting for minerals, etc. By using these substances biologists are enabled to carry on research into various aspects of the metabolism of animal and vegetable organisms and to devise new methods of increasing the yield of crops and the productivity of cattle. Radioactive equipment and preparations are successfully used in medicine to identify and cure a number of diseases.

The application of atomic energy to the production of material wealth, the further improvement of jet propulsion techniques, radio techniques, tele-mechanics, etc., are opening up unprecedented possibilities for improving production and raising labour productivity. All this is bringing about a vast acceleration in economic development, and is one of the decisive factors in providing the level of productive forces necessary for advancing to the higher phase of communism.

The Means of Abolishing the Essential Distinction between Town and Country

The growth of the productive forces of socialist society will give rise to the necessity for changes in relations of production also. In the higher phase of communism relations of production will be based on uniform *public or communist property* in the means of production. The transition to uniform communist property requires all-round strengthening and further development of State (public) and co-operative collective farm property, and also the gradual raising of collective farm and co-operative property, in the future, to the level of public property. On the basis of uniform communist property the essential distinction between town and country will disappear.

The essential distinction between town and country, between industry and agriculture, between workers and collective farm peasantry, at the socialist stage, springs from the fact that

industry is State (public) property, while agriculture has group, collective farm property. There is a considerably higher degree of electrification, mechanisation, automatisation and application of chemicals in industry. Despite the genuine cultural revolution in the countryside, the cultural and technical level of the rural population as a whole has not yet attained that of the urban population.

The essential distinction between town and country is being eliminated in the process of the building of communism. The decisive force in abolishing this essential distinction is socialist industry. Only the further all-round development of large-scale industry will enable the complex mechanisation of all branches of agriculture to be completed.

Socialist industry performs its transforming role in relation to agriculture primarily through the machine and tractor stations. These are the leading force in developing collective farm output. As the most important industrial centres in socialist agriculture, and as the vanguard of high agricultural standards, the machine and tractor stations are serving collective farm production on an increasingly extensive and complete scale. In this they have the aid of the latest techniques, full-time qualified engineers and technical personnel. Through the machine and tractor stations, the Socialist State guides collective farm development in its gradual advance from socialism to communism. The State farms are of growing importance as models of large-scale and highly mechanised agriculture. In this way, State public property is playing an ever-increasing role in the further growth of the whole of socialist agriculture.

Electrification is a powerful instrument for drawing town and country closer together. The great new hydro-electric stations will supply enormous quantities of electricity not only to industry, but to agriculture too. Large State power-stations are the foundation of rural electrification. Alongside these, however, extensive construction of small collective farm power-stations is in progress. The *electric machine and tractor stations*, using electric tractors and electric combines, ensure an extensive use of electric power in animal husbandry. Such stations are not only a new source of power for agriculture, but also cultural centres.

During the period of gradual transition from socialism to

communism, the agricultural artel is the basic type of collective farm. Combining as it does socialised economy, as the main foundation of the collective farm, with the personal subsidiary economy of the collective farmers, the agricultural artel conforms in the greatest degree, under socialism, to the interests of the State, the collective farms and the individual collective farmers. Enormous, but not yet fully utilised, reserves of labour productivity and of increased wealth for the collective farms are still to be found in the artel. Aided by the M.T.S. and equipped with advanced techniques, the collective farms are successfully developing their socially-owned economy, as the key to the creation of an abundance of agricultural produce.

As the socially-owned economy of the collective farms grows stronger and expands, the tasks of providing cultural and living amenities, and building dwelling-houses are being consistently carried out. The socialised economy of the collective farms will satisfy the varied personal needs of the collective farms ever more fully. With an abundance of agricultural produce, the socialised economy of the collective farms will be in a position to satisfy the needs of the State, the collective farms, and also the personal needs of the individual collective farmers. When this happens, it will no longer be profitable for the collective farmers to keep privately-owned cows and small livestock, or to cultivate potatoes and vegetables on their own household plots. Accordingly, the economic need to have a personal subsidiary holding will disappear.

The prerequisites for the conversion of the agricultural artel into a highly developed *agricultural commune*—the highest expression of the collective farm movement—will gradually come into existence with the further consolidation and development of the material production basis of collective farm production.

> "The future communes will arise out of developed and prosperous artels. The future agricultural commune will arise when the fields and farms of the artel have an abundance of grain, cattle, poultry, vegetables, and all other produce; when the artels have mechanised laundries, modern kitchens and dining rooms, mechanized bakeries, etc.; when the collective farmer sees that it is more to his advantage to get meat and milk from the collective farm's meat and dairy department than to keep his own cow and small livestock; when the woman collective farmer sees that it is more

to her advantage to take her meals in the dining room, to get her bread from the public bakery, and to have her linen washed in the public laundry, than to do all these things herself. The future commune will arise on the basis of a more developed technique and of a more developed artel, on the basis of an abundance of products." (Stalin, "Report to the XVII Congress of the C.P.S.U.(B)", *Works*, vol. XIII, p. 360.

The process whereby the artel will grow into the commune will take place as the necessary material prerequisites are created, and as the collective farmers themselves become convinced of the need for it.

The abolition of the essential distinction between town and country does not in any way mean a reduction in the role of the great towns. The planned location of industry throughout the country, and the siting of industrial enterprises closer to the sources of raw materials, are accompanied by the founding of new towns. As centres of the highest development of material and spiritual culture, as centres of large-scale industry, the towns will facilitate the levelling-up of living conditions in town and country. The progressive role of the socialist town as the standard-bearer and pioneer of the latest modern scientific and cultural achievements is constantly increasing. Meanwhile the appearance of the old towns is being fundamentally changed. The purpose of the socialist reconstruction of the towns is to eliminate overcrowding and improve the health conditions of urban life by providing green belts and utilising every modern municipal development.

Transport, too, has to play an important part in abolishing the essential distinction between town and country. Transport binds the industrial centres and agricultural districts into a single whole. The development of rail, road, water and air transport, the transmission of electric power over great distances, the improvement and widespread extension of radio and television, are all important ways of bringing town and country, economically and culturally, closer together. Thanks to these scientific and technical achievements, the rural population acquires the same opportunities for enjoying all the advantages of culture as that of the towns.

So long as there are two basic production sectors in the national economy, State and collective farm, commodity

production and commodity circulation are inevitably retained, and at the same time successfully utilised by the Socialist State in building communism. Commodity production, and the economic categories associated with it, will only wither away with the advent of uniform communist property.

With the disappearance of commodity production, at the higher phase of communism, the various forms of value and the law of value will also disappear. The quantity of labour expended in the manufacture of a product will be measured, not in a roundabout way through the medium of the various forms of value, as is the case in conditions of commodity production, but straight-forwardly and directly by the quantity of labour-time expended on production.

"Labour-time *will always remain*, even when exchange value has disappeared, the creative essence of wealth and standard of the *cost* required to produce it." (K. Marx, *Theories of Surplus Value*, Russian edition, 1936, vol. III, p. 198.)

The friendly alliance of the workers and peasants will be increasingly strengthened during the period of the completion of the building of socialist society and gradual transition from socialism to communism. Both these classes have the same root interests and the same goal—the building of communism. The establishment of communist ownership of the means of production will form the basis for the final obliteration of the boundaries between the working class and the collective farm peasantry.

With the disappearance of the essential distinction between town and country at the stage of communism, there will none the less be retained a certain *inessential distinction* between them. This arises from specific features of industrial and agricultural production respectively, as for example the seasonal nature of agricultural work, connected with the natural processes of growth and ripening of plants, the limited time available for using agricultural machinery, etc.

The Means of Abolishing the Essential Distinction between Mental and Physical Labour

For the advance to communism it is essential to attain such a cultural growth of society as will provide for the full and all-round development of man's physical and spiritual abilities.

After the abolition of the antithesis between physical and mental labour, the problem has arisen of abolishing, in the course of communist construction, the essential distinction between them which obtains in the phase of socialism. This *essential distinction* is that the majority of workers are still on a lower cultural and technical level than engineers and technicians; the majority of collective farmers are on a lower level than agronomists.

Meanwhile technical improvements in industry and agriculture—electrification, complex mechanisation, application of chemicals, etc.—increasingly demand of the worker a high level, both of general education and also in the specialised fields of engineering, technology, or agronomy. The level of productivity of social labour cannot be attained essential for the transition to communism without this. Hence follows the objective necessity for a rapid cultural growth of society and for the abolition of the essential distinction between physical and mental labour.

The essential distinction between physical and mental labour is being abolished by raising the cultural and technical level of workers to that of engineers and technicians, and of collective farmers to that of agronomists.

Socialist emulation, in which the overwhelming majority of the working class and the collective farm peasantry participate, plays a tremendous part in abolishing this distinction. Increasingly large numbers of workers are completely mastering modern techniques and technological methods, while the number of rationalisers and inventors is increasing. Broad strata of the workers are gradually rising to the level of engineers and technicians.

As early as 1935, in characterising the Stakhanovite movement as a new stage of socialist emulation, Stalin pointed out that it contained the seed of the future cultural and technical advance of the working class and opened up the path "by which alone can be achieved those high indices of productivity of labour which are essential for the transition from socialism to communism". (Stalin, "Speech at First All-Union Conference of Stakhanovites", in *Problems of Leninism*, 1953, English edition, p. 667.) When the workers will have raised their cultural and technical level to that of engineers and technicians, and collective farmers their level to that of agronomists, a new and

hitherto unprecedented rise in labour productivity will be achieved. This will provide an abundance of all forms of material wealth.

As the productivity of social labour grows, the economic conditions for the gradual reduction of the working day will be created. This in turn will enable the members of society to devote far more time and energy to acquiring knowledge and culture, and to the harmonious development of all their physical powers and mental abilities.

Universal compulsory polytechnical education is one of the conditions for eliminating the essential distinction between mental and physical labour. Lenin pointed out that polytechnical education must acquaint schoolchildren with the theory and practice of the main branches of production. Widening the horizon of the workers, equipping them with a knowledge of the principles on which modern large-scale production rests, polytechnical education will enable them freely to choose their occupations.

The further cultural development of all members of society will be achieved through universal compulsory polytechnical education, secondary technical and higher education, correspondence courses, and the creation at the place of work of a broad network of various courses and personnel training-schemes for the main occupations.

The development of the knowledge and culture of the workers and peasants to the level of engineers, technicians, and agronomists will denote the abolition of the distinctions between the workers and the peasants, on the one hand, and the intelligentsia on the other.

Socialist society has achieved great successes in raising the well being of the people. But in order to secure the all-round cultural growth of the working people, necessary for the transition to communism, there must be a fundamental improvement in housing conditions, and the real wages of manual and clerical workers and real incomes of collective farmers must be considerably raised. This can only be achieved by a further rapid growth of production and increased labour productivity.

The all-round development of the productive forces and of culture will finally dispose of unskilled and arduous manual labour. The old division of labour, associated with the life-long

attachment of workers to one particular occupation, will disappear.

The elimination of the old division of labour does not in any way mean, however, that communism denies the need for division of labour. The building of communism demands the training of qualified and versatile specialists in all fields of production, science, and technique.

All members of communist society will possess the engineering and technical training necessary for operating the highest techniques and complex productive processes. Besides producing material wealth they will be able to engage in the arts and sciences too. The abolition of the essential distinction between mental and physical labour does not mean that every distinction between these two forms of work will disappear. A certain distinction, although of an inessential kind, connected with the specific differences between the fields of production, science and culture, will none the less remain.

The communist upbringing of the working people is of enormous importance for the transition to communism. Its fundamental task is the education of a new man, for whom work will become a prime necessity of life. In depicting labour in communist society, Lenin wrote:

> "Communist labour in the narrower and stricter sense of the term is labour performed gratis for the benefit of society, labour performed, not as a definite duty, not for the purpose of obtaining a right to certain products, not according to previously established and legally fixed rates, but voluntary labour, irrespective of rates, labour performed without expectation of reward, without the condition of reward, labour performed out of a habit of working for the common good, and out of a conscious realisation (become a habit) of the necessity of working for the common good—labour as the requirement of a healthy organism." (Lenin, "From the Destruction of the Ancient Social System to the Creation of the New", in *Selected Works*, 1950, English edition, vol. II, Pt. 2, p. 339.)

Communism presupposes a high level of public spirit among the members of society. The seeds of the new communist relations already exist in socialist society in the attitude towards labour and public property, and in relations between

man and man. In time, the observance of communist principles will become the natural and customary behaviour of a highly educated and cultured people. But it must not be forgotten that in socialist society the survivals of capitalism in the consciousness of man are as yet far from outlived; that these survivals exist because man's consciousness lags behind his being and because the reactionary forces of the bourgeois world in every way maintain and revive them. Hence follows the need to overcome the survivals of capitalism in the consciousness of man and for an enormous development in the cultural level and communist public spirit of the mass of the people. Of the greatest importance throughout the period of transition from socialism to communism is the struggle against remnants of the old attitude to labour and social property; against bureaucracy and survivals of the past in modes of life and in morals; and against religious prejudices. Persistent and tenacious political and educational work among the masses, the communist upbringing of the entire people, are essential to overcome these survivals.

The Transition to the Communist Principle "From Each According to his Ability, to Each According to his Needs"

The conditions for giving effect to the Communist principle: "From each according to his ability, to each according to his needs" are brought into being gradually, as production increases and on this basis an abundance of articles of consumption is attained, as a uniform Communist form of property is established and a level of culture and public spirit among the members of society appropriate to communism is achieved. This principle means that in communist society each will work according to his abilities and will receive articles of consumption in keeping with the needs of a culturally developed individual.

The Socialist State creates the prerequisites for the higher phase of communism by fully utilising the economic laws of socialism. In accordance with the requirements of the basic economic law of socialism, socialist production is developed and the living standards of the people rise, at steady and rapid rates. The use made of the law of planned development of the national economy constantly increases, and the methods of

socialist planning are perfected. The national economic plans, drawn up for a prolonged period, prescribe the actual methods of creating the material production basis of communism, the ensuring of a productivity of labour higher than exists under capitalism.

In the transitional period from socialism to communism such economic instruments of planned guidance of the national economy as money, credit, trade, and economic accounting, which are bound up with the existence of the law of value, must be fully utilised in order to ensure a marked increase in social wealth. A steady rise in the material and cultural level of the working people is being achieved by the consistent application of the economic law of distribution according to work. The growth of labour productivity is accompanied by price reductions for manufactured and agricultural commodities. The real wages of manual and clerical workers, and the incomes of collective farmers, are being systematically raised. The working people are able to obtain increasing quantities of foodstuffs, clothing, household goods, etc. The successful fulfilment of the programme of big advances in agriculture and increases in the production of mass consumption goods, which is being carried out by the Communist Party and the Soviet State, is of very great importance in providing the prerequisites for the transition to communism.

In the U.S.S.R. the task has been posed of providing satisfaction of man's scientifically ascertained food requirements.

> "We must set before ourselves the task", said N. S. Khrushchev, "of achieving a level of food consumption, based on scientifically tested standards of nutrition, necessary for the all-round and balanced development of a healthy person." (Khrushchev, "Measures for the Further Development of Agriculture in the U.S.S.R.", *Report to the Plenum of the C.C. of the C.P.S.U., 3 September, 1953.*)

A decisive increase in the production of material wealth means that the wage level of manual and clerical workers, and the level of incomes of collective farmers, provide for an ever fuller satisfaction of the growing material and cultural requirements of the working people. With the growth of abundance of products there will come into being the prerequisites for the

transition from distribution according to work to distribution according to needs. Throughout the period of gradual transition from socialism to communism great importance will attach to the development of trade, through which a growing mass of consumer goods will be distributed. Improvement of Soviet trade will build up that extensive machinery which will be used, at the higher phase of communism, for the direct distribution of products according to needs, without commodity and money circulation.

Communism will ensure the all-round satisfaction of the varied personal requirements of the members of society, both by multiplying the quantity of articles of consumption and household use which become the personal property of individuals, and also by developing the social forms in which the needs of the population are met (cultural institutions and amenities, housing, sanatoria, theatres, etc.).

The Soviet Union is the first country in the world to have built socialism, and to be today successfully raising up the edifice of communism. The countries of People's Democracy, using the experience of the Soviet Union, are carrying out the building of socialism, the first phase of communist society. Inevitably, the development of mankind will move along the road to communism. In tracing out the prospects of communist construction, Lenin wrote:

> "If Russia becomes covered by a dense network of electric power-stations and powerful technical installations, our communist economic development will become a model for a future socialist Europe and Asia." (Lenin, "The Work of the Council of People's Commissars. Report delivered at the 8th All-Russian Congress of Soviets", *Selected Works*, 12-vol. edition, vol. VIII, p. 278.)

The great example of the Soviet Union, advancing to the higher phase of communism, and of the countries of People's Democracy, building socialism, shows the peoples of the entire world the road to liberation from capitalist slavery. Each new step taken by Soviet society towards communism confirms more clearly the superiority of socialism over capitalism and implants in the working people of all countries confidence in the historical doom of capitalism and triumph of communism.

BRIEF CONCLUSIONS

(1) Socialism and communism are two phases of development of the communist social formation. Communism is the higher phase. It is characterised by a higher level of productive forces in comparison with socialism, uniform public communist property in the means of production, the absence of classes and class distinctions, the absence of essential distinctions between town and country and between physical and mental labour. From being a mere means of life, labour at the stage of communism will become a prime necessity of life for everybody. On the basis of an enormous rise in the level of productive forces and the productivity of social labour, an abundance of articles of consumption will be achieved and the transition effected to the communist principle: "From each according to his ability, to each according to his needs."

(2) For the transition to communism it is necessary to solve the basic economic task of the U.S.S.R., that of overtaking and outstripping the most advanced capitalist countries economically, that is, in production per head of population. The material production basis of communism must be brought into being, sufficient to provide an abundance of objects of consumption. The essential distinction between town and country must be abolished, on the basis of the creation of uniform communist property in the means of production. This in turn requires all-round strengthening of the role of State public property in the means of production in the national economy as a whole, and in agriculture in particular, and the strengthening and development also of the socially-owned economy of the agricultural artel. The transition to communism further requires such a cultural development of society as will abolish the essential distinction between mental and physical labour, and will raise the educational level and technical knowledge of all workers to the level of engineers, technicians, and agronomists.

(3) The successful achievement of the gradual transition from socialism to communism in the U.S.S.R. is being brought about by the millions of working people, under the leadership of the Communist Party and the Soviet State, guided in their work by the knowledge and use of the objective laws of economic

development. In socialist society, the seeds of communism are already present in production, in attitudes to work and to social property, and in relations between man and man. Communism is being built in the course of a decisive struggle against the survivals of capitalism in the consciousness of man. A necessary condition for the liquidation of these survivals is the communist education of the working people.

(4) The all-round strengthening of the mutual co-operation and fraternal friendship of the countries in the socialist camp is a decisive condition for the successful building of communism in the U.S.S.R. and of socialism in the People's Democracies. The building of communism in the U.S.S.R. is of enormous international importance.

C. THE BUILDING OF SOCIALISM IN THE COUNTRIES OF PEOPLE'S DEMOCRACY

CHAPTER XLI

THE ECONOMIC SYSTEM OF THE PEOPLE'S DEMOCRACIES IN EUROPE

The Prerequisites of the People's Democratic Revolution

The people's democratic revolution in the countries of Central and South-eastern Europe had its way prepared by the whole course of development of capitalism and the class struggle of the working class and working people of these countries, by the entire course of the world liberation movement. Capitalist relations predominated in the economies of these countries, with the exception of Albania. Czechoslovakia was a developed industrial country in which light industry working for export predominated; Poland and Hungary had a medium level of development of industry, with agriculture playing the predominant role; Rumania and, still more, Bulgaria, were agrarian countries with poorly developed industry. Albania was an economically backward country with important survivals of the patriarchal-tribal system.

During a long period the countries of Central and South-eastern Europe underwent oppression by imperialist powers. The landlords and big bourgeoisie who were in power were dependent on foreign finance capital and carried out its will. Exploitation of the working class had reached extreme limits. The development of capitalism in the majority of these countries had been accompanied by the retention of considerable survivals of feudal and serf relations. The bulk of the peasantry, constituting the majority of the population, suffered from land hunger and were poverty-stricken. All this made revolutionary the working class and broad masses of the peasantry.

In the majority of the countries of Central and South-eastern Europe, before the revolution, an enormous section of the land was in the hands of big property-owners—landowners and capitalists. In Poland, peasant farms of up to 12½ acres, which represented about two-thirds of all farms, held less than 15 per cent of the land; landowner and capitalist farms of over 125 acres, which represented 0·9 per cent of the total number of farms, held about one-half of the

land. In Hungary, farms of up to 14½ acres, which represented 84 per cent of all farms, owned one-fifth of the land; farms of over 125 acres, which represented 0·9 per cent of all farms, held nearly half the land. In Rumania, farms of up to 12½ acres included three-quarters of the total number of farms, but held 28 per cent of the land, and in Czechoslovakia the figures were 70·5 per cent and 15·7 per cent. Landlord landownership was abolished in Bulgaria in the main as a result of the Russo-Turkish War of 1877–8. A considerable part of the land in Bulgaria before the revolution of 9 September, 1944, was concentrated in big kulak-type, capitalist holdings, while the bulk of the peasantry owned only a little land. Thus, holdings of a dozen acres or less, which made up two-thirds of all holdings, comprised only 30 per cent of the land.

Capitalist monopolies dominated the industry of the countries of Central and South-eastern Europe, and foreign capital held the key positions. In pre-war Poland, nearly two-thirds of capital investments in industry belonged to foreign capital. In pre-war Rumania, foreign capital controlled 91·9 per cent of the total capital investments in the oil industry. In Hungarian industry 40 per cent of all capital invested in 1937 belonged to foreign firms. In Bulgaria, in 1937, about one-half of the capital investments in large-scale industry, and about two-thirds of the capital investments in transport companies, were in the hands of foreign firms.

During the second world war the countries of Central and South-eastern Europe fell under the yoke of German imperialism, which drained away their entire wealth. The landowners and monopolist bourgeoisie became the agents of German fascism and completely isolated themselves from the people. Class and national contradictions were sharpened to the extreme. The working masses under the leadership of the working class, and headed by the Communist and Workers' Parties, waged a stubborn struggle for liberation from fascist slavery, against the German invaders, and the landowning and capitalist cliques, which had betrayed the national interests of their countries. In the struggle of the working people for their national and social liberation the influence and prestige of the Marxist-Leninist Parties of the working class grew enormously.

The Soviet Union, in the course of its victorious struggle against Hitlerite Germany, liberated the peoples of the countries of Central and South-eastern Europe from the German fascist yoke. The masses in these countries overthrew the Hitlerites' hangers-on and were enabled to go forward to build their own life on new, democratic principles.

In this way, the people's democratic revolution commenced.

The Character of the People's Democratic Revolution

The chief motive forces of the people's democratic revolution are the working class and the peasantry, under the leadership of the former. During the struggle against fascism in the countries of Central and South-eastern Europe, a national front had been formed which united all the anti-fascist forces, including, besides the working class and the peasantry, the urban petty bourgeoisie and part of the middle bourgeoisie. The revolution eliminated the political rule of the landowners and monopolist bourgeoisie. People's democratic governments came into being, based on an alliance of the working class and the peasantry. The foundations of a State of a new type—the People's Democratic Republic—were laid down. Together with the Communist and Workers' Parties, in a number of countries the petty bourgeois and bourgeois parties who had joined the national front of struggle against fascism participated in the government and machinery of State.

The people's democratic revolution was in the first place *anti-imperialist*, since it liberated the enslaved peoples from the imperialist yoke and gave them national independence. In the second place, it was *anti-feudal*, since it eliminated feudal survivals in the economy and in the political systems.

The anti-imperialist, anti-feudal revolution is a bourgeois-democratic revolution of a new type, typical for the historical circumstances of the second phase of the general crisis of capitalism. It does not have as its immediate aim the overthrow of capitalism and establishment of the dictatorship of the proletariat, and in this respect belongs to the category of bourgeois-democratic revolutions, but in its content it is broader and deeper than the usual bourgeois-democratic revolution. In the first place, every anti-imperialist and anti-feudal revolution, spearheaded as it is against imperialist oppression, leads to a weakening of the world imperialist system as a whole, shaking its foundations. In the second place, the victory of the anti-imperialist, anti-feudal revolution creates most favourable conditions for going over to the socialist revolution.

The victory of the anti-imperialist, anti-feudal revolution, led by the working class, means the establishment of a revolutionary-democratic dictatorship of the proletariat and peasantry, which advances the revolution, bringing about a direct transition to a

second stage, the *socialist* revolution. Thus, the anti-imperialist, anti-feudal revolution and the socialist revolution are links in a single chain, two stages in one revolutionary process.

In its first stage the people's democratic revolution carried out, in the main, the tasks of the bourgeois-democratic revolution; the volume of these tasks, and the consistency and methods with which they were carried out, depended on the historical development and the concrete situation as it had come about in each country.

In all the countries of people's democracy a broad democratisation of social and political life was carried out. Where it existed the monarchy was abolished. In the majority of the countries concerned, what was most important was revolutionary agrarian transformations. Landed estates with their equipment and animals were confiscated and for the most part distributed among the land-hungry peasants and labourers. The land passed into the possession of the peasantry as private property. On part of the confiscated estate land State farms were set up. As a result of the revolutionary agrarian changes the landlord class was abolished, and the position of the working peasantry considerably improved. The bulk of the poor peasantry, who had received land, rose to the level of middle peasants. The middle peasant became the central figure in agriculture. The relative importance of kulak holdings declined markedly.

In Rumania before the revolution poor-peasant and middle-peasant holdings occupied less than half the land, but in 1948 they covered 80·7 per cent of it. In Hungary poor- and middle-peasant holdings received, as a result of the agrarian changes about five million acres of land; whereas before the revolution these holdings included 40·4 per cent of all the land, in 1947 they included 70·7 per cent. In Poland landless and land-hungry peasants, together with the middle peasants, received more than 15 million acres, owing to the agrarian changes and to the acquisition of the Western Territories. In Bulgaria, where there was no large-scale landlord landownership, the extent of anti-feudal tasks (abolition of landownership by the monasteries and the church, etc.) solved by the revolution in the carrying-out of the agrarian reform, was less than in the other countries of people's democracy, so that this reform bore to a considerable degree an anti-kulak character.

The revolutionary agrarian changes were carried out with the active participation of the broad peasant masses, led by the

working class, in conditions of acute class struggle. Reactionary forces backed by foreign imperialists offered fierce resistance to the agrarian changes and tried in every way to disrupt them. The agrarian changes had very great consequences, both economic and political. With the abolition of large-scale land-ownership the reactionary forces were deprived of a very important material base. The liquidation of landlord land-ownership did away with the survivals of feudal exploitation of the peasantry. The allotment of land to the land-hungry and landless peasants drew them to the side of the people's rule. As well as being the culminating task of the bourgeois-democratic revolution, the agrarian changes at the same time were one of the preconditions for going over to socialist construction.

As it carried out its anti-feudal tasks, the people's democratic revolution passed over more and more into its second stage, grew over into the socialist revolution. Though the main content of the revolution's first stage was the carrying through of changes of a general democratic character, nevertheless the working class, as the leading force in the revolutionary-democratic dictatorship of the proletariat and peasantry, could not restrict itself to these changes and carried through a series of measures which prepared the transition to the second stage of the revolution. Among such measures were: establishment of workers' control over production; confiscation of the property of war criminals and of capitalists who collaborated with the occupying forces, and of the monopolist bourgeoisie closely connected with them, which resulted in the weakening of the economic position of the bourgeoisie and the passing into the hands of the people's State of part of large-scale industry; establishment of a State monopoly in trade in the most important commodities and State control of foreign trade; and several other measures. As the revolution progressed the nationalisation of the means of production spread further and further. The effect of all this was to weaken the position of the bourgeoisie as a whole and to strengthen that of the working class.

The nationalisation of large and medium industry, transport, means of communication, etc., was carried through in the European People's Democracies in several stages. Nationalisation began as early as 1945–6 and was in the main completed by 1947–8.

As the transition progressed from the solving of general democratic tasks to the solving of the tasks of the socialist revolution, the struggle between the working class and the counter-revolutionary bourgeoisie inevitably grew more acute. The bourgeoisie, relying upon the economic power which it still retained, and upon the support of foreign capital, making use of its agents in the State apparatus and to some extent in the Government itself, tried by every means to frustrate the measures of the people's democratic power and recover its economic and political domination. The working class, after consolidating its forces by uniting the workers' parties on the basis of Marxism-Leninism, welded the peasantry and other strata of the population around itself. In the course of the people's democratic revolution the State organs were purged of counter-revolutionary bourgeois-landlord elements. The old bourgeois State machine was finally broken up and replaced by a new State apparatus answering to the interests of the working people. The masses gave a resolute rebuff to the attempts of the bourgeoisie to restore alien imperialist oppression. As a result of the rout of the bourgeoisie the leading role of the working class in the State was conclusively strengthened. All these tasks had been disposed of in the majority of the European People's Democracies by 1947–8. The State system of people's democracy began successfully fulfilling the functions of the dictatorship of the proletariat, People's Democracy became one of the forms of the proletarian dictatorship.

> "Embodying the rule of the working people under the leadership of the working class," said G. M. Dimitrov, "the People's Democracy, in the existing historical situation, as is already proved by experience, can and must successfully fulfil the functions of the dictatorship of the proletariat for the liquidation of the capitalist elements and the organisation of a socialist economy." (Dimitrov, *Political Report of the Central Committee of the Bulgarian Workers' Party, given at the Fifth Party Congress*, Sofia, 1948, Russian edition, p. 73.)

Thus the process of growing-over from a revolution bourgeois-democratic in character into a socialist revolution, the process of gradual transition from one stage of people's democracy to another, was completed: from the revolutionary-democratic dictatorship of the proletariat and peasantry to people's

democracy carrying out the functions of the dictatorship of the proletariat.

Consolidation of the hegemony of the proletariat and of the leading role of the Communist Parties in the course of these democratic transformations was the decisive prerequisite for transition to the socialist revolution and the dictatorship of the proletariat and also determined the nature of this transition. The establishment of the dictatorship of the proletariat took place not as the act of a single moment, not by the overthrow of the existing power, but by a gradual strengthening of the proletariat's position, by the winning to its side of the great mass of the working people, by putting into effect a number of measures directed towards the liquidation of the economic domination of the bourgeoisie. Among these measures the most decisive was the nationalisation of large-scale capitalist enterprises and banks.

In carrying out the tasks of the socialist revolution, the people's democratic governments converted the factories and mills, mines and power-stations into public, socialist property. Transport and communications, mineral resources and a part of the land, the banks, foreign trade and internal wholesale trade were also nationalised. Thus, the people's democratic governments, led by the working class, starting from the requirements of the economic law of obligatory correspondence between production-relations and the nature of the productive forces, eliminated the economic rule of the bourgeoisie and took possession of the key positions of the national economy. Thereby were created the conditions needed for transition to the socialist transformation of society. As a result of the nationalisations, production relations in industry were brought into harmony with the socialised character of production: the basic means of production became the property of the whole people in the person of the people's democratic State. The people's democracies entered the transitional period from capitalism to socialism.

The formation of the people's democratic power and the transition period from capitalism to socialism were distinguished by certain special features in the case of the German Democratic Republic, created by the democratic forces of the German people after the splitting of Germany into two parts carried out by the Western Powers. There are two states at

present on the territory of Germany—the German Democratic Republic and the German Federal Republic, and these embody different social and economic formations.

In the German Democratic Republic power is in the hands of the working class, in alliance with the working peasantry. The alliance of the workers and the peasants is the decisive force in the political and economic life of the Republic. The State power relies on a *bloc* of anti-fascist, democratic parties and organisations, the policy of which is determined by the tasks of the struggle to create a unified democratic and peace-loving Germany. The leading role in this *bloc* belongs to the party of the working class, the Socialist Unity Party of Germany. By abolishing the economic rule of the Junker landlords and the monopolies, the German Democratic Republic has torn up the social roots of militarism and fascism.

It was a great historical event in the life of the German people when the working people of the German Democratic Republic took the road of socialist construction. The building of socialism in the German Democratic Republic answers to the interests of all the working people of Germany. The leading place in the Republic's economy is held by socialised property in the means of production, on which the public enterprises in industry, the public estates in agriculture, the machine and tractor stations and the agricultural producers' co-operatives are based. Together with the principal, socialist sector in industry, transport, trade and agriculture there are numerous individual enterprises of simple commodity producers—peasants and artisans—and also medium and small capitalist enterprises. The German Democratic Republic takes as its primary task the struggle to reunite Germany on peace-loving, democratic foundations.

Among the countries which broke away from the capitalist system during the Second World War is Yugoslavia. In place of the former Yugoslavia with its reactionary monarchist régime, based on cruel exploitation of the working people and national oppression, there arose as a result of the people's revolution the Federal People's Republic of Yugoslavia, in which power is in the hands of the working class and the peasantry and national inequality has been abolished. Socialised ownership of the main means of production prevails in Yugoslavia—in the fields of large-scale and medium industry,

transport, banking, wholesale trade and the overwhelmingly greater part of retail trade. In spite of the efforts made by imperialist forces, Yugoslavia has maintained its national independence and resisted the attempts of foreign capital to penetrate its economy.

At the present stage of world development, when a mighty camp of socialism exists, people's democracy constitutes a way of revolutionary, socialist transformation of society. The historical experience of the Soviet Union and the countries of people's democracy confirms Lenin's teaching that, while there must be unity on the main and basic question of securing the victory of socialism in various countries, different forms and methods of solving specific problems of socialist construction may be applied, depending on the historical and national peculiarities of particular countries.

Lenin wrote: "All nations will reach socialism; this is inevitable. But not all nations will reach socialism in the same way; each will introduce a special feature in the form of democracy it adopts, in the form of the proletarian dictatorship, and in the rate at which it carries out the reconstruction of the various phases of social life." (Lenin, "A Caricature of Marxism and 'Imperialist Economism'", *Collected Works*, English edition, vol. XIX, pp. 256–7.)

Forms of Economy and Classes

The economy of the European people's democracies is a transitional economy containing more than one form. There are to be found in it three basic forms of economy or sectors of the national economy: socialist, small commodity, and capitalist.

The *socialist* form of economy includes: (1) the industrial enterprises, transport, the banks, trading establishments, agricultural estates, machine and tractor stations based on *State* or public ownership; (2) various types of enterprise based on co-operative property—industrial, consumer, credit, agricultural, marketing and supply, and agricultural producers' co-operatives.

In all the European people's democracies, the socialist sector occupies the predominant place in the economy. The major part of the national income is produced in this sector.

All banking operations, industry, transport, all internal wholesale trade and the main part of retail trade is in State hands. A State monopoly of foreign trade has been set up. In agriculture, however, with the exception of Bulgaria, the socialist form of economy does not yet occupy a predominant place.

Occupying a predominant position in the national economy and embracing the key economic positions, the socialist form of economy in each of the European people's democracies, is the determining force in their economic development and is growing stronger from year to year.

In recent years the socialist form of economy represented in the various countries:

In the national income: Poland 76 per cent, Czechoslovakia 92 per cent (in 1953), Hungary 81 per cent (in 1954), Rumania 70 per cent (in 1952), Bulgaria 87 per cent (in 1954), Albania approximately 70 per cent (in 1952).

In industry: Poland 99·5 per cent (in 1953), Czechoslovakia 99·6 per cent (in 1953), Hungary 97 per cent (in 1954), Rumania 99 per cent (in 1954).

In wholesale trade: 100 per cent in all these countries.

In retail trade in 1954: Poland 96 per cent, Czechoslovakia 99·8 per cent, Hungary 99·7 per cent, Rumania 76 per cent, Bulgaria 99·5 per cent.

In the German Democratic Republic the proportion of the socialist sector in industry amounted in 1953 to 85·5 per cent, in wholesale trade to 94·5 per cent and in retail trade turnover to about 70 per cent.

In the socialist sector the exploitation of man by man has been eliminated and the character of labour has been changed. From being labour for the capitalists, it has become labour for oneself and for the whole of society. Because of the changed economic conditions in the socialist sector, the economic laws of capitalism which express the relations of exploitation and anarchy of production have quitted the stage. The laws of socialist economy have come into being and have begun to operate: the basic economic law of socialism, the law of planned, proportional development of the national economy, the law of distribution according to work done, and others. A continuous growth of socialist production is taking place, based on the highest techniques, with the aim of securing the victory of socialism and satisfying the growing needs of the working people. Socialist production is carried on in a planned

way, based on the law of planned, proportional development of the national economy. Planning methods are being constantly improved.

The existence in the economy of the people's democracies of two forms of socialist property, as well as of small commodity economy, leads to the operation of the law of value and of the economic categories associated with it: money, trade, credit, etc. The law of value is not the regulator of socialist production, but does influence it. This influence is taken into account by the people's democratic States in planning prices, carrying out economic accounting, etc. Trade, money, credit and other economic categories, associated with the law of value, are being successfully utilised as instruments for the building of socialism.

In so far as the socialist sector plays a leading role in the economy of these countries, the basic economic law of socialism, the law of planned development of the national economy and the other economic laws of socialism, are exercising an increasing influence on the development of the national economy as a whole. As socialist relations of production continue to grow, the sphere of operation of the economic laws of socialism is steadily extending.

The *small commodity* economy includes the farms of the individual working peasants and also small handicraft production based on the personal labour of its owners. In some countries, particularly in Albania, survivals of patriarchal relations still exist in the countryside. Individual peasant farms produce the bulk of agricultural produce; the middle peasants occupy a predominant place among them. Small commodity peasant economy based on private ownership of the means of production inevitably gives birth to elements of capitalism.

Planning in the European people's democracies does not yet embrace directly the entire national economy. Production in the small commodity sector is regulated by the operation of the law of value. However, the people's democratic governments, relying on the law of planned development of the national economy, exercise a regulating influence on small commodity production through trade, State purchases, prices, credit, taxes, etc.

The *capitalist* economy includes the kulak farms, private trading establishments and private industrial enterprises based on the exploitation of hired labour.

The law of value is the economic regulator in the capitalist sector. Within the confines of this sector the law of surplus-value still operates, but its sphere has been greatly reduced. The size of capitalist enterprises and their opportunities for exploiting hired labour are strictly limited. Among the methods whereby the capitalist elements are restricted are high rates of taxation and a number of measures to curb market fluctuations.

The working class and the peasantry are the main classes in the people's democracies. But alongside the toiling classes, there are the bourgeoisie in the form of the kulaks and also the private entrepreneurs in trade and industry.

The close alliance of the working class and the working peasantry, under the leadership of the former, is the vital condition for the existence and development of the social and State system of the people's democracies. This alliance is directed against capitalism and for the building of socialist society.

> "The pivot and motive force of our revolutionary transformation was, and is, the alliance of workers and peasants led by the working class. In the course of decades, the working class in its struggle against capitalism and fascism has consolidated its alliance with the basic masses of the working peasantry. Widening, consolidating and deepening this alliance is the main principle in the policy of the people's government and a guarantee of its strength and successes." (Bierut, "Report of the Central Committee of the Polish United Workers' Party to the Second Party Congress". *For a Lasting Peace, For a People's Democracy*, March 19, 1954.)

The basic contradiction in the economy of the people's democracies, during the transitional period from capitalism to socialism, is between growing socialism and the beaten, but not yet abolished, capitalism, with its roots in small commodity production.

The building of socialism is taking place in conditions of intense class struggle. The opposition of the classes which are dying is manifested in the hostile activity of the remnants of the routed anti-popular political parties, the nationalist, "left" and right-wing deviations in the Communist (Workers') Parties, in the wrecking, sabotage and diversive acts of imperialist agents. The Communist (Workers') Parties, together with the masses of the people, are unmasking the elements hostile to socialism, and securing victory for the policy of building socialism.

The State in the people's democracies makes objective economic laws the starting-point of its policy, and uses them to achieve the complete victory of the socialist forms of economy over the capitalist.

Guided by Marxist-Leninist teachings on the transitional period from capitalism to socialism, the people's democratic governments are consolidating the alliance of the working class and the peasantry, and conducting a struggle against the capitalist elements in town and country by restricting and squeezing them out. The people's democratic States make use of market relations in every possible way in order to develop the trade bond between industry and agriculture. In carrying out socialist industrialisation, they are broadening the production bond between town and country and are following the policy of gradually developing co-operation in production among the peasant farms on a voluntary basis.

Thus, the same fundamental principles which determined the new economic policy in the U.S.S.R. underlie the building of socialism in the people's democracies. As has already been noted, however, these principles are being applied there with due allowance for the considerable historical peculiarities of each country's national, economic and political development.

The building of socialism in the people's democracies is being undertaken in considerably more favourable historical conditions than those in which it took place in the U.S.S.R., the first country where socialism triumphed. In creating the economic and cultural foundations of socialism, the people's democracies are extensively utilising the very rich experience of socialist construction accumulated by the Soviet Union, and are able to rely on the strength of the whole camp of socialism and on the increasing mutual aid between all the countries that make up this camp. This enormously facilitates the solution of the problems of socialist construction.

With the resolute support of the Soviet Union, the plans for imperialist intervention against the European people's democracies were frustrated. These countries have thereby been spared a prolonged civil war and the need to carry out the policy of "war communism". This has enabled them to restore their economies in the shortest possible time and to set about the socialist reconstruction of the national economy.

Socialist Industrialisation

Socialist industrialisation is a very important prerequisite for building socialism in the people's democracies; it is put into effect with due allowance for the peculiarities of each country and its role in the international division of labour within the socialist camp. Through industrialisation these countries create the material, production basis for socialism and ensure a sound foundation for a steady growth in production and the people's welfare.

Before the second world war the share of industrial output in that of agricultural and industrial output combined was: Poland 47·6 per cent, Hungary 53 per cent, Rumania 40 per cent, Bulgaria 33·8 per cent, Albania 18·3 per cent; 65 per cent of the gainfully employed population were engaged in agriculture and about 17 per cent in industry in Poland, 78 and 7 per cent respectively in Rumania, 79·9 per cent in agriculture and 8 per cent in industry and handicrafts in Bulgaria. With regard to the level of national income, volume of production and consumption of industrial output per head of population and a number of other indices, these countries lagged considerably behind the more developed industrial countries. Thus in Poland, consumption of ferrous metals per head of population was little more than one-tenth of that in Great Britain and hardly one-eighth of that in Germany; electricity consumption was approximately one-seventh of that in Britain and Germany and one-fifth of that in France.

All these countries have completed the period of restoring their economy, which suffered the effects of the war and fascist pillage. Relying on the aid of the Soviet Union and utilising the advantages of socialist planned economy, the people's democracies disposed of the tasks of reconstructing their economies in a very short period, two or three years.

The successful restoration of their national economy provided a stable basis for its socialist reconstruction. The central task of their first Five-Year Plans for developing the national economy (in Poland, the Six-Year Plan) was the laying of the foundations of socialism. Socialist industrialisation—the development of large-scale socialist industry, and above all heavy industry—was the central feature of these plans. At the same time the process of industrialisation in each individual country has its own special features, depending on the level of development and structure of industry and on historical, natural, and economic conditions.

The accumulation taking place in the socialist sector is the main source of industrialisation in the countries of people's democracy. A part of the savings of the working people, in the form of State loans, is also utilised for industrialisation. The expropriation of part of the incomes of the capitalist elements in town and country, primarily by means of progressive taxation, provides further resources for this purpose.

A systematic increase in the productivity of social labour, by the introduction of advanced techniques and better organisation of labour, is a decisive factor in the growth of socialist accumulation. Socialist emulation is a powerful motive force in the growth of labour productivity. The bulk of the workers take part in socialist emulation. Advanced workers are successfully applying in their work the production experience accumulated in the U.S.S.R. and in other countries of the socialist camp. The utilisation of the economic law of distribution according to work, the application of various forms of piece-rates, and the fight against wage levelling are of primary importance in securing a steady growth of labour productivity. Of great importance for increasing accumulation in socialist production is the use of the law of value, strengthening in every way the régime of economy and consistently introducing economic accounting.

Klement Gottwald wrote:

> "Have we not had, do we not still have, quite a number of economic and political workers among us who have forgotten about the operation of the law of value, and for whom as a consequence questions of economic accounting and profitability of enterprises, the question of costs, prices, etc., have ceased to play any role? Is it not clear that such a mistaken attitude causes great losses to our economy and hinders our advance towards socialism? I think that this much is clear; and that it must cause all our people, particularly those in managerial and responsible positions constantly to observe a régime of economy in production, and in the sphere of State purchases and sales." (Gottwald, "The Historic XIXth Congress of the Communist Party of the Soviet Union and our Tasks", *For a Lasting Peace, For a People's Democracy*, November 7, 1952.)

Socialist industrialisation in the people's democracies is being carried out in different and more favourable historical

conditions from what was the case in the U.S.S.R.; and it has important special features.

The Soviet Union was the only country building socialism, and effected its industrialisation without any outside assistance, relying exclusively on its internal resources. The people's democracies, on the contrary, are industrialising their economy when a powerful socialist camp exists. In the course of socialist industrialisation the countries of this camp rely on extensive mutual aid in a great variety of forms.

The Soviet Union had to build up all branches of industry, and in the first place heavy industry, at forced rates. The people's democracies have been spared the impossible task of developing all branches of industry in each of their countries. Each of the countries of people's democracy, entering in the socialist camp, is able to create and develop above all those branches of industry for which it is most favourably suited by natural and economic conditions. The successful carrying out of this task is facilitated by extensive division of labour, economic mutual aid and co-operation between the States of the socialist camp.

With the successful fulfilment of the long-term plans for socialist reconstruction of the national economy, the pre-war levels of industrial output had been exceeded by 1954 as follows: Poland more than 4-fold, Hungary about 3·5-fold, Czechoslovakia 2·3-fold, Bulgaria 5-fold, Rumania 2·6-fold. The proportion of industrial output in the total industrial and agricultural output combined, was considerably increased. In all the people's democracies, apart from Bulgaria and Albania, output of the industries producing the means of production accounts for more than half the total industrial production. The European people's democracies have become industrial-agrarian countries, possessing large-scale industries equipped with the latest techniques.

In Poland, the coal and chemical industries, ferrous metallurgy, and the building materials industry have made great advances. Automobile and tractor production, shipbuilding, production of artificial fibres and other branches of industry have been brought into existence. In 1954 per capita output had increased, compared with 1938, of steel 3·5-fold, electric power more than 5-fold, cement about 3-fold. In Hungary there has been a great development of the aluminium industry, engineering and machine-tool construction, production of mining equipment and agricultural machinery. In Rumania the oil extracting and oil processing industry and the chemical industry are developing successfully. Important branches of engineering such as the manufacture of agricultural machinery

and oil equipment, shipbuilding and others have been brought into existence.

In the German Democratic Republic the volume of industrial production in 1954 was nearly double what it had been in 1936. In recent years the disproportion in the economy caused by the partition of Germany has been substantially reduced. A metallurgical base has been created in the Republic, the productive capacity of heavy engineering and shipbuilding has been extended, the production of modern agricultural machinery organised, and the output of chemical products increased.

While ensuring priority growth of heavy industry as the basis for the advance and technical reconstruction of the whole national economy, the people's democracies are making large-scale investments in agriculture, and in the light and food industries. This will provide a considerable expansion of output of agricultural produce and manufactured mass consumption goods, and will raise the living standards of the working people.

The Socialist Transformation of Agriculture

The building of socialism assumes the victory of socialist forms of economy not only in the towns, but in the countryside too. As the experience of the U.S.S.R. has shown, the only successful solution to the peasant question is the change-over of the bulk of the peasantry from small-scale individual farming to large-scale collective farming. Gradual development of *producer co-operation* among the small and middle peasant farms, on a voluntary basis, is an objective necessity for countries undertaking to build socialism.

Accordingly, the people's democracies are developing the production of tractors and other agricultural machinery, organising a network of State farms which demonstrate the advantages of large-scale socialist production, and setting up machine and tractor stations to provide the technical re-equipment of agriculture. Help is being given to the poor and middle peasant masses to enable them to increase output, and steps are being taken to draw them into various forms of purchasing, marketing, and producer co-operatives.

The socialist transformation of agriculture in the people's democracies has its own special features. These countries are undertaking this transformation at a time when there is already a developed system of socialist agriculture in the U.S.S.R., in

the form of collective farms, State farms, and M.T.S. Familiarity with the experience of the Soviet Union in the field of the socialist transformation of agriculture, and with the achievements of the collective farms, M.T.S. and State farms, is playing a big part in drawing the bulk of the peasantry in the people's democracies on to the road to socialism. The U.S.S.R.'s experience in organisational and economic consolidation of the collective farms, its forms of organisation and remuneration of labour, the distribution of incomes, etc., are being extensively utilised in building up the system of producer co-operative among the peasant farms.

The special features of peasant producer co-operation in ing people's democracies spring from the fact that it is develop- the while there is still small peasant ownership of the land; whereas, collectivisation in the U.S.S.R. took place after the *whole* of the land had been nationalised. The experience of the people's democracies has shown that immediate nationalisation of all the land is not, in all countries, an indispensable condition for building socialism in the countryside. In the people's democracies part of the land taken from the landlords during the agrarian revolution has remained in the hands of the State, while the rest has become the private property of the peasants. Owing to the prohibition of buying and selling of land and restrictions on the renting of it, the retention of private ownership of land by the peasants does not lead, however, to concentration of landownership in the hands of capitalist elements.

The agricultural producers' co-operatives in the people's democracies fall into three main categories. These depend on the extent of socialisation of the land and the means of production, and the methods of distribution of incomes which follow from this. In the first place, there are associations for joint working of the land: only the labour for carrying out the various agricultural jobs (ploughing, sowing, crop cultivation, harvesting) is collective, while the land allotments themselves are the property of individual members of the association. In the second place, there are producer co-operatives: both the means of production and the labour are socialised, and the land is amalgamated into a single block, although still remaining the private property of the co-operative members. The bulk of the produce in co-operatives of this type (70–5 per cent) is distributed

according to work-days earned, while a smaller part is distributed according to the share of land put into the pool. In the third place, there are artels: labour, land and means of production have been socialised, while the produce is distributed only according to work performed.

Thus, at present, there are three kinds of property in land in the people's democracies: State, co-operative and private. The complete victory of socialism in agriculture presupposes socialisation of all the land and its conversion into social property. The turn towards socialisation of all the land will take place gradually, on voluntary principles, as the peasantry, in the course of the development of producer co-operation and the gradual extension of its higher forms, become convinced by experience of the indisputable superiority of large-scale collective farming over petty privately-owned farming.

The socialist transformation of agriculture is taking place in the process of an intense class struggle. The kulaks are striving in every possible way to undermine peasant producer co-operation. The people's democratic States are giving all-round material assistance to the poor and middle peasant farms, taking steps to strengthen the organisation and economy of the producer co-operatives, and waging an implacable struggle against the kulaks.

In Bulgaria, by 1954, there were more than 2,700 working co-operatives on the land, uniting 52 per cent of peasant farms, 108 State farms and 150 M.T.S.; more than 60 per cent of the cultivated land was in the socialist sector. In Hungary, producer co-operatives unite about 200,000 peasant families and occupy about 18 per cent of the arable land. State farms occupy more than 12 per cent of the arable. In Poland, in 1954, there were more than 9,300 co-operatives, occupying 7·5 per cent of all plough-land. State farms dispose of more than 12 per cent of all the sown area. In Rumania, by the end of 1954, there were 5,000 collective farms and associations, uniting 318,000 peasant households with 2,750,000 acres, or more than 10 per cent of the total. In Czechoslovakia, producer co-operatives are cultivating about 33 per cent of the plough-land, and State farms more than 10 per cent. In the German Democratic Republic, in 1955, State farms occupied 4 per cent, and agricultural producer co-operatives 18 per cent of the total useful agricultural area.

Two kinds of mistakes have occurred in the process of the socialist transformation of the countryside in the countries of

people's democracy—on the one hand, artificial forcing of co-operation upon the peasant farms, and violation of the voluntary principle in admission to the co-operatives; on the other hand, underestimation of the need to organise and lead the movement to co-operation, and adopting a *laissez-faire* policy in the work of setting up co-operatives. The Communist and Workers' Parties are waging a campaign against both types of mistake.

On the basis of this socialist transformation, the people's democracies have won important successes in developing agriculture and raising the living standards of the peasantry. Nevertheless, the growth of agricultural output still to a considerable extent lags behind that of industrial output, and is inadequate for satisfying the growing needs of the national economy and the population.

In this connection it is very important to ensure a further rapid advance of agriculture, from the standpoint of the national economy as a whole.

This requires a further development of co-operative production, organisational and economic strengthening of the existing co-operatives, and improved work of the State farms. At the same time the State power in the people's democracies, pursuing the general policy of gradual socialist transformation of agriculture, is making use of the still unexhausted opportunities for obtaining a further growth of output in the individual farms of the working peasantry. To this end, productive, technical, credit and scientific assistance is being given to the individual working peasantry and the development of their holdings is being stimulated by means of the trade bond between town and country, advantageous conditions of production by contract, and an appropriate tax and procurement policy.

All these measures promote the expansion of agriculture and the consolidation of the workers' and peasants' alliance.

The Rise of the Living Standards and Culture of the Working People

Socialist construction in the people's democracies is being accompanied by a steady rise in the living standards and culture of the working people. This is an expression of the operation of the basic economic law of socialism. As a result of the rapid

growth of industry, unemployment both in town and country was already eliminated in the course of 1948–9. The number of workers employed in socialist enterprises is growing from year to year.

The national income of these countries is increasing steadily and rapidly. With the elimination of the classes of great landowners and big capitalists, the national income is used in the interests of the living standards of the working people, and of socialist extended reproduction in town and country.

The real wages of manual and clerical workers, and the real incomes of the peasants, are steadily rising. Price reductions are of great importance in this respect. Important factors, too, are the reduction of rents and of the cost of other municipal services. The raising of living standards is also ensured by the development of social insurance for manual and clerical workers at State expense, free education and health services, and the provision of an extensive network of sanatoria and rest-homes.

The national income was in Poland in 1954 more than twice what it had been before the war; in Bulgaria in 1953 it had increased by 86·7 per cent; and in Czechoslovakia by about two-thirds.

In Poland, per capita real incomes outside agriculture were 40 per cent higher in 1953 than in the immediate pre-war years; per capita real incomes of the rural population were 75 per cent above those of 1938. In Hungary, the real wages of a factory worker in the first half of 1954 were 57 per cent above the 1938 level; the real income of a peasant family was 50 per cent above 1938. The growth of real incomes is leading to a substantial increase in consumption by the working people. In Rumania, the food consumed by a worker's family in 1953 had increased as follows compared with 1938: bread 20 per cent, sugar 48 per cent, vegetable oil 164 per cent. The Rumanian peasant had increased his personal consumption of rye and wheat by 50 per cent in the same period. The real wages of manual and clerical workers in Bulgaria in 1953 were 38 per cent higher than in 1939.

During 1954 a further increase took place in the real income of the working people of the people's democracies.

The building of socialism in the people's democracies is inseparably bound up with the cultural revolution. The broadest strata of the working people are acquiring culture and knowledge. The revolution has put an end to the monopoly of education and culture held by the bourgeoisie and the landowners. Education and culture have become the property of the whole people. With increasing speed a new socialist

intelligentsia is coming into being. The numbers of engineers and technical personnel are increasing. Putting to use in every way the rich heritage of progressive culture from the past of their peoples, who have made notable contributions to world culture, the people's democracies are creating a new culture, socialist in content and national in form. The socialist culture of the U.S.S.R., profoundly international in its character, is exerting a great influence on the development of the national cultures of the people's democracies. As a result of the broad development of cultural co-operation between the countries of the socialist camp they are reciprocally enriching each other's cultures.

In Rumania, between 1938–9 and 1953–4, the number of pupils in 7-year schools had increased 4·7-fold, in secondary schools more than 4-fold, in higher educational institutions more than 2·2-fold —from 29,000 to 64,300, apart from 19,000 correspondence students.

In the old Poland, in 1937–8, there were twenty-eight higher educational institutions with 48,000 students, of whom no more than 5 per cent were children of workers and 9 per cent children of peasants. In 1953, Poland had eighty-three higher educational institutions with 134,000 students, of whom the overwhelming majority were children of workers and peasants.

In Hungary in 1954–5 the number of pupils in secondary schools was three times what it had been in the last year before the war, and the number of students was four times as many.

In 1938 there were nine institutions of higher education in Czechoslovakia, with a total of 19,000 students. Today there are 40 such institutions, with 47,900 students. In Albania in 1954 the number of pupils in primary schools was over 2·6 times as many as in 1938, and there were 7·7 times as many secondary school pupils.

The successes of socialist construction in the people's democracies are fresh proof that the socialist economic system is indisputably superior to the capitalist system.

BRIEF CONCLUSIONS

(1) The people's democratic revolution in the countries of Central and South-eastern Europe in the first stage of its development completed the tasks of the bourgeois-democratic revolution. The anti-imperialist character of the revolution was expressed in the fact that it freed the peoples of these countries from the yoke of imperialism and, with the support

of the Soviet Union and the whole socialist camp, ensured their national independence. The anti-feudal character of the revolution was expressed in a broad democratisation of social and State structure, in the abolition of the monarchy where it existed, and in the carrying through of revolutionary agrarian changes; the land of the landlords was confiscated and divided among the landless and land-hungry peasants. With the fulfilment of the anti-feudal tasks, the bourgeois-democratic revolution developed into the socialist revolution. This was reflected in the socialist nationalisation of large-scale and medium industry, transport, the banks, foreign trade and internal wholesale trade. The people's democratic State began successfully to fulfil the functions of the dictatorship of the proletariat.

(2) The economy of the people's democracies in the transitional period from capitalism to socialism comprises three basic economic forms: socialist, small commodity, and capitalist. The leading part is played by socialist economy. In the course of struggle against the capitalist elements, the people's democratic States, relying on objective economic laws and basing themselves on the socialist sector, are pursuing a policy of building socialism.

(3) Socialist industrialisation in the European people's democracies is a decisive condition for building socialism, and ensuring a rise in the living standards of the people. Thanks to the advantages of the socialist forms of economy and the mutual assistance and co-operation within the socialist camp, the people's democracies are rapidly advancing along the road of industrial development, ensuring the priority development of heavy industry.

(4) The victory of socialism in the European countries of people's democracy requires the socialist transformation of agriculture. This socialist transformation of the peasant farms is taking place through their gradual organisation in producer co-operatives on a voluntary basis, while retaining private peasant ownership of the land. Socialisation of all the land will be the result of the development of higher forms of producer co-operatives. The advance of agriculture is being achieved through further development of producer co-operation, with increasing aid from socialist industry, and also through making use of the existing possibilities for the development of individual peasant economy.

(5) The building of socialism in the European countries of people's democracy is leading to a steady rise in the living standards and cultural level of the working people. Unemployment has been abolished and the real wages of the workers and the real incomes of the peasants are growing.

CHAPTER XLII

THE ECONOMIC SYSTEM OF THE CHINESE PEOPLE'S REPUBLIC

The Prerequisites of the Chinese People's Revolution

Until the victory of the people's revolution China was a backward, agrarian country dependent on the imperialist powers. Chinese economy was of a semi-feudal and semi-colonial character. The *semi-feudal* character of the economy consisted in the dominance of feudal-landlord landownership and semi-feudal methods of exploiting the peasantry, and this was the main cause of the stagnation, backwardness and lack of rights that prevailed. The land was worked by primitive methods.

The landowners, as a rule, did not carry on large-scale farming but leased out the land in small plots to the peasants. The tenant farm was the most widespread form of peasant holding. Leases were as a rule for an indefinite term or perpetual. Pre-capitalist forms of rent were the most widespread: labour-rent, rent in kind, money-rent.

The semi-colonial character of the economy consisted in the fact that over a long period foreign imperialists had dominated China. The intrusion of foreign imperialism on the one hand hastened the process of disintegration of feudal relations, but, on the other, imperialism, interested in upholding feudal survivals in China, entered into a compact with the feudal forces and held back the development of Chinese capitalism. The clique of landlords and compradore bourgeoisie ruling in China assisted in every way the penetration of the foreign monopolies into the country's economy. Though capitalism developed to a certain degree, it never became the basic economic system in China.

Right up to the revolution China remained a country where capitalism was developed only to an extremely low level. Modern industry, especially heavy industry, was very weak. The foreign monopolies hindered the development of industry, especially the branches producing means of production, and kept the country in a state of technical and economic

backwardness. Modern industrial enterprises existed only in a few coastal districts and in the north-east of the country, while nearly the whole of China's vast territory was entirely lacking in machine industry. The production of modern industry in pre-revolutionary China was equivalent only to 17 per cent of the total production of industry and agriculture. The overwhelming mass of manufactured articles were produced by small handicraft enterprises and manufactories. At the same time the growth of commodity relations in town and country rendered extremely acute the unbearable oppression constituted by the semi-feudal forms of exploitation of the peasantry. The spread of wage-labour created numerous bodies of proletarians in town and country.

The landlords, who made up 4–5 per cent of the rural population of China, owned more than half of all the land; the poor and middle peasants, who made up 90 per cent of the rural population, owned only 30 per cent of all the land.

The peasants leased the land on *share-cropping* terms, paying the landowners from 50 to 70 per cent of the harvested crop for the lease of the land and implements.

The main mass of the peasantry, the poor and middle peasants, were compelled to seek loans in cash and in kind from the landowners and money-lenders. About 60 per cent of all peasant households constantly had recourse to the "aid" of money-lenders in order to pay their taxes; about half of the peasants regularly ran short of food and were compelled to borrow it from the rich. Money-lenders and landowners extorted huge sums from the peasants as interest on loans.

China's dependence on imperialist powers, principally on Britain, Japan and the U.S.A., grew continually. Foreign capital in industry amounted to 75 per cent of the total capital invested, while the share held by national capital did not exceed 25 per cent. Beginning with the thirties of the twentieth century American imperialism assumed the dominating position in China. In 1936, the U.S.A. share in China's foreign trade was 23 per cent; in 1946 it was 53 per cent. The American monopolists controlled industry, foreign and internal trade, and finance.

As early as the middle of the last century, when the capitalist powers began to penetrate China on an extensive scale, the class of feudal landlords that ruled the country proved quite incapable of defending the State from external enemies. As a result, despite the huge size of the country, China virtually lost its position as an independent State.

The semi-feudal character of China's economy determined the class structure of the populations.

The *landlords* were the most reactionary exploiting class in Chinese society. They served as the main prop of the foreign imperialists who enslaved the Chinese people.

The *peasantry* were the most numerous class in China. With the penetration of commodity relations into the countryside, there was taking place a process of class differentiation among the peasantry. On the eve of the victory of the people's revolution the labourers (landless peasants) and poor peasants (those with small plots of land) comprised 70 per cent, the middle peasants 20 per cent, and the kulaks 5 to 6 per cent of the village population. The kulaks made use to a large extent of hired labour (farm labourers), combining capitalist exploitation of the peasantry with semi-feudal methods of exploitation.

In the twentieth century, in connection with the development of capitalism, new classes besides the feudal landlords and the peasantry appeared in the arena of social life: the bourgeoisie and the proletariat.

The *bourgeoisie* in China from the very beginning found itself economically dependent upon foreign imperialists. The big *compradore* bourgeoisie was closely linked with feudal landownership and the foreign imperialists, especially with the American, British and Japanese imperialists. It functioned as middleman between the foreign imperialists and the Chinese market and concentrated considerable wealth in its hands, obtained through merciless exploitation of the worker and peasant masses. During the rule of the Kuomintang clique important positions in the country's economy were seized by a handful of monopolists who made extensive use of State power to plunder the country (so-called "bureaucratic capital"). Another section of the bourgeoisie consisted of the *national* (chiefly middle) *bourgeoisie*. As the foreign imperialists prevented the development of native industry by every possible means, the national bourgeoisie displayed opposition to the foreign imperialists and the compradore bourgeoisie. The rural bourgeoisie—the kulaks—made extensive use of hired labour, combining capitalist exploitation of the peasantry with semi-feudal methods of exploitation.

A very numerous section of the population was the *urban petty bourgeoisie* (handicraftsmen, small traders) among whom

discontent with imperialist robbery and feudal oppression increased.

The *industrial proletariat*, on the eve of the victorious people's revolution, numbered about four millions. In addition to workers in factory industry, there were many millions of proletarians and semi-proletarians engaged in other branches: port and town workers engaged in loading, unloading and transporting goods (coolies and rickshaw pullers), workers engaged on navvying, and also rural proletarians (labourers), numbering before the revolution some tens of millions. The industrial proletariat, the most organised, conscious and advanced detachment of the working masses, from the twenties of the present century exercised a determining influence on the political life of the country.

After the first world war, under the influence of the great October Socialist Revolution in Russia a broad anti-imperialist and anti-feudal revolutionary movement arose in China, linked with a rapid upsurge in the working-class movement. The Chinese revolution, aimed at overthrowing oppression by imperialism and feudalism, became part of the world revolution.

The Character of the Chinese Revolution

The people's revolution in China, which achieved victory in 1949, had deep historical roots. For a long time the alien imperialists and the landlord-compradore State plundered and oppressed the Chinese people. Imperialist oppression and feudal methods of exploitation rendered class contradictions extremely acute and brought the country to the brink of economic and political disaster. The people's revolution became the only way out of the situation thus created.

In view of the semi-colonial position of the country and the predominance of semi-feudal relations, the people's revolution in China assumed in its first stage the character of a *national-liberationist, bourgeois-democratic revolution.* The principal contradictions, on the basis of which this revolution grew and developed were, on the one hand, the contradiction between the Chinese people and foreign imperialism, and on the other, the contradiction between the mass of the people and feudalism. The main enemies of the Chinese revolution were the forces of imperialism and feudalism, acting in close alliance.

Consequently, the revolution was called upon to carry out two inseparably connected tasks: on the one hand to overthrow the oppression of foreign imperialism, and on the other to overthrow oppression by the feudal landlords inside the country. Thus, the Chinese bourgeois-democratic revolution was, from the very beginning, an *anti-imperialist and anti-feudal* revolution. "The bourgeois-democratic revolution in China is a combination of the struggle against feudal survivals and the struggle against imperialism." (Stalin, "The Revolution in China and the Tasks of the Communist International", *Works*, vol. IX, p. 292.)

The main driving forces of the Chinese people's revolution were the working class and the peasantry. The working class, and the peasantry led by it, constituted the chief army of the revolution, guaranteeing to the Chinese people victory over their foreign and internal enemies. In the course of the revolutionary struggle a united people's democratic front was formed, in which there took part the working class, the peasantry, the urban petty-bourgeoisie, the national bourgeoisie and all the democratic elements in the country. The revolutionary struggle of the Chinese people was headed by the Communist Party of China, which was guided by the theory of Marxism-Leninism, creatively applying this theory in the conditions of its own country and making use of the experience of the victorious revolution in the Soviet Union.

The historical peculiarity of the Chinese people's revolution is that it developed under the conditions of the general crisis of capitalism, when the world system of capitalism is in its epoch of decline and is being replaced by the socialist system, when the camp of socialism has come into being, headed by the Soviet Union. In these circumstances the Chinese Revolution was not a revolution which set up a dictatorship of the bourgeoisie and opened a freer road for the development of capitalism, but a bourgeois-democratic revolution *of a new type*, growing over into a *socialist* revolution. The Communist Party of China proceeded from the fact that in the present international situation China, as a result of the bourgeois-democratic revolution, leaves the capitalist path of development and takes the non-capitalist, i.e., the socialist road.

Developing Lenin's teachings on the character of colonial revolutions in the epoch of the general crisis of capitalism and

on the growing of the bourgeois-democratic revolution into the socialist revolution, Mao Tse-tung wrote:

> "The whole Chinese revolutionary movement led by the Chinese Communist Party is a complete revolutionary movement embracing the two revolutionary stages, democratic and socialist, which are two revolutionary processes differing in character, and the socialist stage can be reached only after the democratic stage is completed. The democratic revolution is the necessary preparation for the socialist revolution, and the socialist revolution is the inevitable trend of the democratic revolution. And the ultimate aim of all Communists is to strive for the final building of socialist society and communist society." (Mao Tse-tung, "The Chinese Revolution and the Communist Party of China", *Selected Works*, vol. III, p. 101.)

During nearly three decades the masses, led by the working class with the Communist Party at its head, carried on a stubborn armed struggle against foreign imperialism, against the rule of the feudalists and the compradore bourgeoisie.

In the course of a long anti-imperialist and anti-feudal struggle, the Chinese people established extensive revolutionary bases on which they set up a people's-democratic united front government, carried out radical social transformations and accumulated rich revolutionary experience and gradually built up a mighty people's-democratic army, which triumphed in 1949. The Chinese revolution in its bourgeois-democratic phase successfully accomplished the task of the overthrow by the masses, led by the proletariat, of the rule of alien imperialism, the rule of the feudal landlords and the big monopolist compradore bourgeoisie, set up a people's-democratic republic and carried through revolutionary agrarian transformations.

As the tasks of the bourgeois-democratic revolution were fulfilled, it grew over into a socialist revolution, making the transition to the road of socialist transformations.

The Chinese People's Republic is a *people's democratic State, led by the working class and based on the alliance of the workers and the peasants*. In the socialist phase of the revolution the people's democratic power has begun successfully to fulfil the functions of the dictatorship of the proletariat. The people's democratic

power is developing the construction of the foundations of socialism while at the same time completing its fulfilment of the tasks of the democratic revolution. China has entered the *transition period* to socialism.

The greatest significance of the Chinese revolution consists in the fact that it has opened the road of development towards socialism before a huge country with an extremely backward economy, in which semi-feudal and semi-colonial forms of economy predominated. This is the principal peculiarity of the economic development of the Chinese People's Republic as compared with the European people's democracies. In the new historical conditions the possibility of successfully building socialism has opened before China. The people's power, relying on the help of the socialist camp and the support of the vast masses of the people, has carried out in a very short time very profound revolutionary changes in China's economy and led the country on to the non-capitalist road, the road of building socialism.

Revolutionary Transformation of Agriculture. Socialist Nationalisation

Among the radical social and economic changes in the Chinese People's Republic, the agrarian reforms have enormous significance. During the revolutionary war, and later in the course of the agrarian changes of 1950–2, the system of feudal landownership was abolished and feudal exploitation ended.

In 1950 the Central People's Government of China passed "the law on agrarian reforms of the Chinese People's Republic", under which the landed property of the landowners was confiscated and that of the temples and monasteries requisitioned without compensation. Draught animals, farm implements and superfluous buildings were also confiscated from the landowners.

The confiscated land and other means of production were distributed per person among the peasants, without regard to age, sex or nationality. The landless peasants and those with little land received the main share of the landowners' land and farm implements. All peasant debts to landowners for rent of land and to usurers in respect of loans were cancelled.

The agrarian reforms were carried out by the People's

Democratic Government with the active participation of the broad masses of the peasants. By the beginning of 1953 the agrarian reform was completed throughout the whole country (with the exception of a small number of regions inhabited by national minorities) over a territory with an agrarian population of about 450 millions. Peasants without land and those with little land received 116 million acres of cultivable land.

Along with this the old feudal system of taxation, with its multitude of State and local taxes payable by the rural population, and collected from them many years in advance, was abolished. The agrarian changes in China liquidated the landowning class. Instead of ownership of the land by the landlords, small peasant private property in land was established. The productive forces of agriculture were freed from the trammels of outdated feudal relations, and thereby the way was opened to the fulfilment of the great task of industrialising China.

The People's Democratic Government, carrying out the agrarian reforms which completed the bourgeois-democratic revolution, at the same time passed on to the road of socialist reorganisation.

This means first and foremost the socialist nationalisation of large-scale industry and the banks; all industrial enterprises, commercial concerns, banks, transport and other property belonging to the compradore monopolist bourgeoisie were confiscated and taken over by the people's State.

All the unequal treaties with foreign States, all the old customs, laws and regulations by means of which the foreign imperialists plundered the Chinese people and stifled the national industries, were abolished. The majority of undertakings belonging to foreign capital were requisitioned. State control of foreign trade was established. China was finally freed from imperialist enslavement.

The special feature of the socialist nationalisation carried out by the People's Democratic Government in China lies in the fact that it left untouched the property of the national bourgeoisie, which in the main consisted of middle bourgeois.

Socialist nationalisation in China led to the creation of the State socialist sector, the most important economic bulwark of the people's democratic State in economic and cultural construction.

Forms of Economy and Classes in the Chinese People's Republic in the Transition Period

As a result of the revolutionary agrarian changes and the transformation of the commanding heights of the national economy into public property, radical changes have taken place in China's economy. Instead of the former semi-feudal and semi-colonial economy there has arisen a transitional economy of several forms, distinguished in China by a number of special features.

The leading place in People's China's multiform economy is held by the *socialist sector*. The socialist sector embraces, first, enterprises based on State ownership, and, second, enterprises based on co-operative ownership.

State property comprises undertakings which were formerly the property of the compradore bourgeoisie and foreign capitalists, nationalised by the People's Democratic Government, and also undertakings newly established by the State after the victory of the revolution: factories and workshops, pits and electric power-stations, railways and other forms of transport, means of communication, etc.

The mineral wealth, waters, and also State forests, lands adjoining towns, virgin lands and other natural resources are also State property and belong to the whole people. In the sphere of agriculture State property comprises the State-organised machine and tractor stations, machine-hiring depots and agro-technical stations, and State agricultural enterprises —the State farms. In the sphere of distribution, the State owns trading enterprises which play a decisive role in wholesale trade. The whole of foreign trade and nearly all banking business are in the hands of the State.

Further, the socialist sector of the economy embraces co-operative enterprises wholly based on collective ownership by the working masses. To this sector belong supply and marketing co-operatives, consumer and credit co-operatives, agricultural producers' co-operatives of the higher type (collective farms) and those of the handicraft producers' co-operatives in which all the means of production are the co-operative property of their members. Supply and marketing co-operatives are subject to the guiding influence of State trade and help to strengthen the economic ties between petty commodity

peasant economy and State socialist economy, and to increase the element of planning in the supply of manufactured goods to the peasants and also in the State procurement of grain, cotton and other materials for industry. Credit co-operation is connected with the State Bank, which directs its work and helps it with funds. The people's democratic State assists in every way producer co-operation among the individual peasants and artisans, and facilitates the gradual transition of such co-operation from lower forms to higher.

The relative share of the socialist sector in industry and trade is growing rapidly. In 1949 34 per cent of industrial output came from State enterprises, 2 per cent from joint (State-and-private) enterprises and 63 per cent from private enterprises. In 1954 the share of State enterprises had risen to 59 per cent, and that of State-and-private enterprises to 12·3 per cent, while the share of private concerns had been reduced to 24·9 per cent. In 1954 also, 89 per cent of wholesale trade was conducted by State and co-operative organisations. Under the Five-Year Plan the share of State and co-operative organisations in retail trade is to grow from 34 per cent in 1952 to 55 per cent in 1957.

The State controls all foreign trade and concentrates directly in its hands about 90 per cent of all import and export operations, including all trade with the U.S.S.R. and the countries of people's democracy. The State People's Bank has monopoly rights of issue and controls more than 90 per cent of all deposits and loans.

In 1950, for the first time in the history of China, a single State Budget was drawn up, having a real basis. Since 1951 the Budget has shown an excess of revenue over expenditure. In 1955 more than 60 per cent of the Budget resources were allocated to economic construction and also to social, cultural and educational needs. More than 89 per cent of the allocation to industry in the 1955 Budget was directed to heavy industry.

By the end of 1954 marketing and consumer co-operation united 172 million persons. Credit co-operation in the countryside took the form of agricultural credit co-operatives, credit groups for mutual aid and credit sections in the supply and marketing co-operatives. There were 150,000 credit co-operatives in China in the spring of 1955, with over 90 million members. All kinds of credit co-operation are developing rapidly.

The socialist sector is the leading force in the whole national economy. It serves as the basis for the introduction of further socialist changes by the people's democratic State. On the basis of socialist production-relations the basic economic law of socialism has arisen and come into operation. The aim of

production in the socialist sector is not the extraction of profit but the satisfaction of the growing demands of the whole of society. Production in this sector is growing steadily. Socialist enterprises are more and more fully equipped with modern technique. But the operation of the basic economic law of socialism is still very much restricted, as private property forms of economy predominate in the country's economy.

Thanks to the existence of socialised ownership of the means of production, in opposition to the law of competition and anarchy of production, there has arisen and begun to operate the economic law of planned, proportional development of the national economy. The people's government of China, basing itself on the socialist sector, carries out current and long-term planning of the national economy. State enterprises are developing according to plan; economic accounting is applied in them, and payment of manual and clerical workers is made in accordance with the quality and quantity of the work performed by them. The State fixes the prices of the most important products of industry and agriculture, regulates the monetary circulation and controls foreign trade. By these means the State exercises a regulating influence on the other sectors of the national economy.

In order to meet the country's demands for food and other goods and overcome chaotic capitalist tendencies, the State has introduced planned purchase and planned supply of grain, fats and textiles and also planned purchase of cotton.

To the socialist sector belong various kinds of co-operation which are partly based on collective ownership by the working masses and their joint labour. This kind of semi-socialist co-operation is in China the main form of transition to the socialist transformation of agriculture and handicraft industry. To this transitional category belong the agricultural mutual-aid production teams, in which the peasants work collectively to carry out certain tasks. They retain private property not only in land but also in the instruments of production and in the products. Gradually these forms of co-operation are transformed into agricultural producer co-operatives, in which land is transferred to the co-operative in the form of shares and the work of the farm is carried on jointly. In the specific historical circumstances of China a gradual and extensive application of very simple transitional forms of co-operative economy enables

the broad masses of the individual peasants to be drawn more successfully into collective production.

Already before the formation of the Chinese People's Republic, in the years of the revolutionary wars, after the agrarian transformations had been carried out, agricultural mutual aid production organisations were formed, and these contained growing-points of socialism. In those days there appeared also in the liberated areas individual agricultural producer co-operatives of a semi-socialist or socialist type. Extensive organisation of agricultural mutual-aid production teams and mass formation of agricultural producer co-operatives on the basis of mutual-aid work-teams began, however, only after the formation of the Chinese People's Republic.

By the end of 1951 there were more than 300 agricultural producer co-operatives in China, both socialist and semi-socialist. By the end of 1953 their number exceeded 14,000, having increased 47-fold in two years. By June, 1955, there were 650,000 agricultural producer co-operatives in the country, embracing 16,900,000 peasant holdings. Thus, each co-operative contained on the average 26 households. The total number of holdings embraced by agricultural mutual-aid production teams and agricultural producer co-operatives amounted in 1954 to 60 per cent of all the peasant holdings.

The petty commodity sector embraces the holdings of peasants and artisans based on petty private ownership of land and other means of production and personal labour. While China is still an agrarian country with a poorly developed industry petty commodity production continues to occupy the predominant place in the economy and serve as the means of existence for the bulk of the population. As a result of the revolutionary agrarian transformations the relative importance of the middle peasantry has greatly increased. A great number of poor peasants and labourers have obtained land and acquired their own holdings, and the middle peasant has become the central figure in the countryside.

The petty commodity sector also includes artisan production, which is especially widespread in the countryside, small trading concerns in the towns, small workshops for day-to-day service of the population, and so on.

In Chinese agriculture fragmented and backward petty commodity production predominates. The land is divided up into tiny plots and worked by the hand labour of the peasants or, with the aid of draught cattle, by primitive agricultural implements. But this backward farming technique is gradually being replaced by

modern agricultural machinery and implements, received by the peasants from the growing heavy industry of China. In the Chinese countryside there are about 110 million small and very small peasant holdings. The country includes about 30 million artisans. A large part of the industrial goods consumed by the peasantry are produced by handicraftsmen and artisans.

Small commodity peasant and handicraft production inevitably gives birth to capitalist elements. Class differentiation into poor peasants and kulaks is developing in the village. But in the conditions of the people's democratic system it is only of a restricted nature.

In the small commodity sector the regulator of production remains the law of value, manifesting its influence in a spontaneous fashion. The law of value has a material influence also on production in the socialist sector. As State and co-operative property is strengthened and the influence of the law of planned development of the national economy is extended, the State is more and more mastering the law of value, money, and trade, and converting these into instruments of socialist construction.

The people's democratic State gives help to the individual peasant farms and handicraft workers in making use of the productive possibilities which they possess; and at the same time it encourages them to adopt the socialist road of development through co-operation, based on strict observance of the voluntary principle.

Survivals of the patriarchal form of economy still exist in China's economy. A considerable section of the peasantry in the remote and thinly-populated areas of the country carry on natural or semi-natural (patriarchal) economy in the form of primitive farming and nomadic stockbreeding, directed to satisfying the peasants' own needs and very weakly connected with exchange and the market. The people's government encourages the creation in these areas of mutual-aid stockbreeding groups and co-operatives.

The *private capitalist sector* includes capitalist industrial enterprises in the towns, kulak farms in the countryside and trading capital enterprises. To this sector also belong the numerous handicraft workshops employing hired labour and the manufactories, the number of which is fairly large. The private capitalist sector occupies a considerable place in China's economy.

In China in 1953 there were more than 200,000 private capitalist enterprises, in which more than 2,750,000 workers, including office workers, were employed. The value of the production of these enterprises constituted 38 per cent of the value of the country's total production. By 1957, under the Five-Year Plan, the share of private capital in industrial production is to be reduced to approximately 12 per cent, and the share of private enterprise in retail trade will amount to roughly 21 per cent.

In the Chinese countryside, after the abolition of the feudal property of the landlords, there exists the capitalist property of the kulaks and the boundless sea of petty individual peasant property, on the basis of which a spontaneous growth of capitalist elements is taking place; new kulaks are appearing and part of the well-to-do middle peasantry are trying to become kulaks.

In the private capitalist sector the regulator of production continues to be the law of value, and the law of surplus-value retains its force along with this. However, the sphere of action of the law of surplus-value is increasingly restricted.

The people's government in China carries out in relation to capitalist industry and trade a policy of utilising, restricting and transforming, with as its ultimate aim the liquidation of the system of capitalist exploitation and of the exploiting classes and the replacement of capitalist property by public ownership of the means of production. In the specific circumstances of China the attainment of this goal demands a relatively long period of time.

In view of the economic backwardness of China and the predominance in the country of fragmented, petty commodity production, the people's government makes use, under its control, of private industry and trade for the purpose of extending industrial and agricultural production, accumulating resources, training technical cadres and maintaining employment. With the aim of increasing industrial and agricultural production and developing commodity circulation, the people's government advances credit to private enterprises, gives them orders for the production of particular kinds of goods, supplies them with raw material and buys their finished products from them.

Along with this it carries out a policy of restricting the exploiting tendencies of the capitalists in the towns and the kulaks in the countryside. The people's power checks the activity of those capitalists who try to raise the prices of goods

in evasion of the laws in force, or to subvert workers' control over private concerns, or to disrupt State plans, thereby doing damage to the people's interests. A substantial contribution to the restricting of the capitalist elements in town and country is made by taxation policy.

The people's government encourages the transformation of private capitalist industrial and commercial enterprises into various kinds of State-capitalist enterprises, gradually creating the conditions for the property of the capitalists to be transformed into public property.

The *State-capitalist sector* embraces those capitalist enterprises which in various ways are connected with and collaborate with the State sector of the economy. Such enterprises include industrial and commercial ones, banks, and credit associations.

There exist in China on a wide scale the following basic forms of State capitalism, constituting successive levels of its development. The lowest form of State capitalism is the system of periodical purchases of the products of private enterprise by State organs; the medium form is the working up by private enterprises of raw material and semi-products belonging to the State, State orders for finished products, centralised purchases, guaranteed markets; the highest form is the creation of mixed, so-called State-and-private concerns. These are enterprises in which the State invests its own funds and in which it has its representatives to manage the enterprises jointly with the capitalists. The leading role in these enterprises is played by the State. Exploitation of labour by capital is restricted; the capitalists receive only part of the profits. With the passage of time this highest form of State capitalism will assume ever greater importance.

The development of all these forms of State capitalism is accompanied by class struggle. China's experience fully confirms Lenin's statement that State capitalism in the transition period is a "continuation of the class struggle in another form, and under no circumstances . . . the substitution of class peace for class war". (Lenin, "The Tax In Kind", *Selected Works*, 1950, vol. II, Part 2, p. 546.)

The development of State capitalism prepares the necessary conditions for future nationalisation of the enterprises.

Thus, there exist in the transitional economy of China the same three basic forms of social economy—socialism, petty

commodity production and capitalism—as existed in the transition period from capitalism to socialism in the Soviet Union and which exist at the present time in the European people's democracies. As a result, however, of China's economic and technical backwardness inherited from the past, the relative share of the socialist forms within its economy is considerably less than in the European people's democracies, and the relative share of capitalism, and, even more, that of petty commodity production are correspondingly greater. In China, unlike the European people's democracies, State capitalism is extensively utilised in the interests of socialist construction.

The class structure of society has changed in accordance with the changes that have taken place in China's economy. The basic classes are the *working class* and the *peasantry*. Alongside the working masses of workers and peasants are also the numerous artisans and other toilers of town and country. In addition there is the national bourgeoisie in the towns and the kulaks in the countryside, and also the numerous stratum of urban petty bourgeoisie.

The Communist Party of China, taking into account the various forms of economy and classes in the economy of the transition period, mastering and making use of the economic laws of the development of society, has determined the direction of economic construction for the whole transition period. In 1953 Mao Tse-tung declared:

> "The general line and the central tasks of the Party in this transition period are, in the course of a somewhat lengthy space of time, gradually to effect the socialist industrialisation of the country, gradually to effect the socialist transformation of agriculture, handicraft industry and private trade and industry. This general line is a beacon illuminating all our work. To carry out any work, whatever its nature, that diverts us from it, is to commit an error either of the right deviation or of the left deviation." (*Pravda*, June 22, 1954.)

The régime of people's democracy in China guarantees the possibility of liquidating exploitation and poverty and building socialist society. In China, a huge, economically backward country with complex and variegated conditions, the building of socialist society is a gigantic task. The Communist Party is

working on the principle that socialist society will be built, basically, in the course of about three Five-Year Plans.

Of decisive importance for the success of socialist construction is the strengthening of the alliance of workers and peasants under the leadership of the working class. Therein lies the basic condition for drawing the peasant masses into the building of socialism. The policy of the People's Government is aimed at the development in every way of the economic links between State industry and peasant economy, and at extending the co-operative organisation of the peasant farms. The Communist Party of China takes as a basic principle that to strengthen the alliance of the workers and peasants it is necessary, simultaneously with the gradual putting into effect of socialist industrialisation, gradually to carry out a socialist transformation of agriculture as a whole. This means bringing about co-operation between the peasant holdings; that is, transition from individual farming to co-operative forms of farming, with gradual liquidations of the system of kulak farms, as a result of which the whole rural population will become well-to-do.

In China in the transition period an important role is played by the united people's democratic front led by the working class. It is a broad association based on the alliance of the workers and peasants and including all patriotic elements, i.e., also those elements of the national bourgeoisie who are ready to co-operate with the people's democratic State. Owing to the special historical conditions of China, which was in the past oppressed by foreign imperialists and can only become an independent and powerful State by following the path of socialism, there is not only struggle between the working class and the national bourgeoisie but also a relationship of practical co-operation. The people's government draws the national bourgeoisie into participation in State affairs, into the solution of urgent problems of economic construction, while at the same time suppressing all forms of anti-popular activity.

The fundamental contradiction in the transition period is the contradiction between socialist and capitalist elements in town and country, between the working class and the working masses of the peasantry, on the one hand, and the bourgeoisie in the towns and the kulaks in the country, on the other. For the building of socialism it is necessary that the contradiction between the socialist and capitalist economies be resolved.

This contradiction is being resolved through the gradual carrying through of radical economic changes which will alter the face of China: socialist industrialisation, socialist transformation of agriculture and handicraft production, radical transformation of private industry and trade, leading to the complete elimination of capitalist relations in these branches of economy and their replacement by socialist relations. Socialist industrialisation is the main link in socialist construction in China, while the transformation of agriculture and handicraft production and that of private industry and trade are important component parts of it, inseparable from socialist industrialisation. The socialist transformation in China's economy is accompanied by acute class struggle between socialist and capitalist elements, which develops in accordance with the formula: "Who will beat whom?"

The Paths of Socialist Industrialisation of China

In the course of a brief period, 1949 to 1952, the Chinese People's Republic restored the national economy which had been ruined during the prolonged war. Already by 1952 the volume of production in the basic branches of industry and in agriculture exceeded the highest figures ever attained in the past. The relative share of the socialist forms of economy had grown and their leading role in the whole national economy had been consolidated.

In the course of the same period the entire mainland of China was united, the agrarian changes were brought to completion, and a number of measures were taken for the democratic transformation of the social system and the suppression of counter-revolutionary elements. The strengthening of the financial system and the currency reform laid the basis for the stabilisation of prices. All this prepared the conditions for unfolding planned economic construction, having as its aim the gradual socialist reconstruction of society.

Beginning in 1953, the Chinese People's Republic began to carry out the first Five-Year Plan for the development of the national economy (1953–7). This plan was approved in its final form by the second session of the All-China Assembly of People's Representatives in July 1955, but its basic tasks had been in process of being put into effect since 1953.

The aim of the first Five-Year Plan for the development of China's national economy is, first and foremost, to create the primary foundation for socialist industrialisation of the country. In accordance with the economic law of priority growth of the production of means of production, the first Five-Year Plan provides for the principal forces of the country to be concentrated on the creation of heavy industry—metallurgy, fuel, power, engineering, chemicals—as the fundamental basis for the development of the entire national economy. The people's democratic government of China starts from the principle that only on the basis of heavy industry can the advance be assured of all branches of industry and agriculture, together with satisfaction of the requirements of defence and a steady rise in the material and cultural standard of life of the people. Alongside of the main task—development of heavy industry in every way —the Five-Year Plan envisages an advance in transport, light industry and agriculture and an extension of trade, with a steady growth in the relative share of the socialist forms of economy.

Other tasks of the Five-Year Plan are the creation of the primary basis for socialist transformation of agriculture and handicraft industry, the creation of the conditions for socialist transformation of private industry and trade, and the gradual raising of the material and cultural standard of life of the people on the basis of the growth of production.

China possesses all the conditions needed for solving the historic task of industrialising the country, and has extensive possibilities of doing this.

China possesses immense human reserves. The Chinese working class, headed by the Communist Party, is leading economic and cultural construction. As the foremost class of society, by its exemplary self-sacrificing labour, by its organisation and discipline, it is rallying the broadest strata of the working masses in the fight for socialism. The friendly alliance of the workers and peasants has been consolidated and grown strong, and the cause of the industrialisation of the country is meeting with active support from hundreds of millions of peasants. As a result of the agrarian changes the peasants have been freed from the huge payments they used to make to the landlords, which enables them, as well as improving their living conditions, to contribute part of the fruits of their labour to the cause of industrialisation.

China possesses very rich natural resources for developing all branches of industry, and in the first place heavy industry. At the same time there are inevitably a number of difficulties to be overcome on the way to fulfilling this task, difficulties connected with technical backwardness, insufficiency of skilled industrial personnel, an irrational distribution of industry and disproportion between its several branches, inherited from the past, lack of knowledge of the country's natural resources, etc.

The industrialisation of China is being carried out through the building of enterprises equipped with the most up-to-date technique, and radical reconstruction of a number of large-scale factories, and also more rational and complete utilisation of old enterprises.

The Chinese People's Republic receives first-class equipment from the Soviet Union and the European people's democracies, and is drawing on their very rich technical experience, and experience in the organisation of labour and production at large-scale socialist enterprises.

It is intended to construct and reconstruct during the first Five-Year Plan 3,000 enterprises, etc., including 694 large industrial enterprises. The chief among these are 156 which are being equipped by the fraternal aid of the Soviet Union. The building of these enterprises is a big step forward in the development of the basic branches of industry and the raising of its technical level. By the end of the Five-Year Plan China will have its own heavy industry, ensuring the basis for industrialisation of the country. The volume of industrial production expressed in terms of value will have doubled.

As a result of the fulfilment of the Five-Year Plan the production of means of production is to increase by 126·5 per cent, the production of consumer goods by 79·7 per cent, and the relative share of the means of production in the total amount of industrial production will grow from 39·7 per cent in 1952 to 45·4 per cent in 1957.

Socialist industrialisation is leading to an especially rapid growth of State industry. In the course of the first Five-Year Plan the total value of the output of the whole of China's industry will approximately be doubled, in comparision with 1952, that is the annual average increase is to amount to nearly 15 per cent; while the total value of the output of State industry is intended to increase by 1957 2·3-fold, an annual increase of about 18 per cent. By the end of the Five-Year Plan, State, co-operative and mixed State-and-private enterprise will be

responsible for 88 per cent of total industrial production, the share of private enterprises being restricted to 12 per cent, with the majority of them working on government orders.

The rapid development of industry requires considerable accumulation. The resources for this purpose come, in the first place, from accumulation made in the State sector of the economy, and from revenues from domestic and foreign trade, and secondly from taxes levied on capitalist enterprises and also taxes collected from the population.

One of the main conditions for the successful development of China's national economy is a rise in the productivity of labour of the workers and peasants. Labour emulation is developing among the workers in State enterprise for increasing production, improving the quality of output, economising material and better utilisation of plant. The advanced workers in production receive material encouragement. There are thousands of heroes of labour who have been given awards.

The Gradual Socialist Transformation of Agriculture

The revolutionary agrarian reforms in the Chinese countryside are having a substantial influence on the development of the productive forces of agriculture and on the conditions of the peasant masses. For the first time in the history of the country measures on a national scale are being taken to secure a considerable development of agricultural production. Government aid in seed and credit is given to needy peasants. Struggle against agricultural pests is organised. Propaganda is being carried on for modern agricultural technical knowledge. With the participation of broad masses of the peasantry, the Chinese People's Government is carrying out irrigation works of great importance for the most important agricultural regions of the country, and has relieved tens of millions of people of the danger of floods.

An example of the great hydro-technical projects is the hydro-technical scheme in the Huai basin, on which for three years 2 million men were at work. The courses of 77 rivers were cleared and new channels made, over a total length of 2,000 miles; 104 locks were constructed. One dam alone, in the lower reaches of the river Huai, saves 20 million peasants from inundations. According to incomplete data, from 1950 to 1953 the peasants themselves

built more than 6 million small irrigation canals, ponds, and reservoirs, dug over 800,000 wells, restored or built over 250 large irrigation works. As a result the area of irrigated land was increased by over 8 million acres.

In 1954 the construction was completed of the Kuanting water reservoir on the upper course of the river Yungting (North China), which prevents flooding in the Peking and Tientsin region.

In the first Five-Year Plan work will be undertaken to utilise the waters of the river Hwangho (the Yellow River) and establish complete control over it. Dozens of huge dams will be built on this river and its tributaries, to make possible the creation of a number of large reservoirs and hydro-electric stations.

In 1952 agricultural output reached the highest level in the history of China, considerably surpassing the peak pre-war figures of production. In 1952 the gross harvest of grain was 145 per cent of the 1949 figure, and of cotton about 300 per cent. During the first Five-Year Plan the total output of agriculture and rural auxiliary activities will increase, in terms of value, by 23·3 per cent. By the end of the Plan the production of food will be 17·6 per cent greater than in 1952, of cotton 25·4 per cent, of jute and kenaf 19·7 per cent, of tobacco 76·6 per cent, of sugar-cane 85·1 per cent, of sugar-beet 346·1 per cent; the area under oil-bearing crops will be 37·8 per cent greater. It is estimated that in the course of two Five-Year Plans, or a little more, the yield from grain crops will be brought up to 275–300 million tons, surpassing the 1952 level by 70 per cent, and representing an annual average output of 10 cwt. of grain per head.

The Chinese People's Republic has achieved definite successes in agriculture. However, the situation in the country is that the population is enormous, the cultivated area insufficient, natural calamities occur from time to time, and farming methods are backward. Small peasant economy is not in a position to meet the growing food requirements of the population, or the raw material requirements of industry. There is an acute contradiction between the low level of production of marketable grain and agricultural raw material, on the one hand, and the rapid growth of the State's demands for foodstuffs and raw material, on the other. On the basis of small production it is impossible to prevent differentiation taking place among the basic masses of the peasantry and to radically improve their condition and assure them a well-to-do existence.

The victory of the people's democratic revolution opened up a path of gradual socialist transformation of China's agriculture. The Communist Party and the People's Government of China have laid down, and are carrying out, a plan of gradual

voluntary transition of the peasants from small peasant private property to large-scale collective socialist economy, on the principle that socialist industrialisation of the country cannot take place in isolation, divorced from the organisation of co-operation in agriculture.

The resolution of the Central Committee of the Chinese Communist Party "On the development of agricultural producers' co-operatives" (December 16, 1953) states:

> "With the aim of further developing the productive forces in agriculture, the Party laid down the following central tasks for its work in the countryside: using forms and methods understandable by and acceptable to the peasants, to educate the peasant masses and promote their gradual association and organisation; gradually to introduce socialist re-organisation in agriculture with the aim of converting it from backward, small commodity individual economy into advanced and highly productive co-operative economy; gradually to end the disproportion in the development of industry and agriculture, and to give the peasants the possibility of gradually ridding themselves of poverty and winning a prosperous and happy life." (*People's China*, No. 8, 1954.)

The road of gradually bringing together the peasants for production, laid down by the Chinese Communist Party, passes through agricultural mutual-aid production teams to small agricultural producer co-operatives of a semi-socialist type, and so to large agricultural producer co-operatives of the higher type, completely based on social ownership of the means of production and possessing a completely socialist character.

Agricultural mutual-aid production teams unite a number of peasant households to carry out joint work on certain agricultural tasks while retaining private ownership of land and other means of production.

Many permanent teams combine the labour of the peasants not only in agriculture but also in auxiliary trades. A certain division and specialisation of labour exists within them. Some of these teams set up collectively-owned funds. Thanks to the joint, collective labour of the peasants, such forms of co-operation have definite advantages over individual peasant farming. The lower forms of co-operation prepare the individual peasants to pass over to agricultural producer co-operatives.

Agricultural producer co-operatives of the semi-socialist type presuppose the pooling of the land on a share basis, unified management on the basis of collective labour, and the building up of certain common funds. In these co-operatives, income is distributed according to the size of the land share and the amount of work performed on the common farm. The land and other means of production remain the private property of the members of the co-operative; the peasants are remunerated not only for their land but also for the animals and agricultural implements which they have handed over for joint use. Gradually, as such co-operatives grow stronger, the share of income distributed according to work done becomes greater and greater, remuneration for shares increasingly loses its significance, and socialised property grows steadily. *The highest form of agricultural co-operation* is the producer co-operative of the type of the agricultural artel in the U.S.S.R., based on common ownership of the means of production, including the land, and collective labour. In such agricultural producer co-operatives of the higher type income is distributed exclusively on the basis of work-days earned.

The transition from lower to higher forms of co-operative association takes place gradually, allowing for different conditions in the economic, political and cultural development of each area, with the strictest observance of the principle of voluntariness and mutual aid. The Communist Party and the Government of the Chinese People's Republic wage a resolute struggle against both drift and violation of the voluntary principle in the development of co-operation between peasant farms.

Co-operation is coming to the Chinese countryside in conditions in which the industrialisation of the country has only just begun, and consequently the necessary basis has not yet been created for equipping agriculture with advanced, modern technique. The overwhelming majority of agricultural producer co-operatives are still without the material basis of machine production. In only a few of them is the land worked by machinery, supplied by the first machine and tractor stations. The rest of the co-operatives cultivate the land either by hand or with the aid of oxen, using antiquated agricultural implements or implements of an improved type. Even in these primitive co-operatives, however, as a result of the mere pooling of

the peasants' means of production and of collective labour the yield of agricultural crops is, as a rule, higher than on individual peasant holdings. This testifies to the high labour activity of the members of the co-operatives, to the advantages of the co-operatives over the mutual aid teams and still more over the individual farms. The Communist Party of China takes as its starting-point that during the first two Five-Year Plans the main content of the transformations in the countryside will continue to be social, with technical changes only of auxiliary importance. During the third Five-Year Plan, however, the transformation of the countryside will consist of the simultaneous carrying-through of social and technical changes. Fundamental technical re-equipment of agriculture on a country-wide scale will take about four or five Five-Year Plans, i.e., twenty to twenty-five years, to complete.

At the present time a mass movement for bringing about rural co-operation has already begun in a number of agricultural areas, and this is rapidly spreading throughout the country. The majority of the Chinese peasants are filled with determination to take the socialist road. The socialist industrialisation of the country and its successes strengthen this determination day by day, for the peasants realise that only the road of uniting in co-operatives, the road of socialism, will deliver them from need and lead to a radical improvement in their lives. This mighty movement of the rural population of China, numbering more than 500 millions, towards socialism has enormous international significance.

The reconstruction of approximately 110 million individual peasant farms on collective principles and the carrying through of technical changes in agriculture involves considerable difficulties. The Communist Party of China, at the head of the broad movement of peasants towards socialism, mobilises the masses to overcome these difficulties without allowing the tempo in the growth of co-operation in agriculture to decline.

Taking into account the great historical experience of the Soviet Union in building socialism, the Chinese Communist Party is leading the peasantry in its movement along the road to socialism. According to present plans, by the spring of 1958 the agricultural co-operatives of a semi-socialist type will embrace 250 million persons, or 55 million peasant households, i.e., half the population of the countryside. By the same time,

changes of a semi-socialist character will fundamentally have been completed in the rural economy of many counties and a number of provinces, while in certain areas a small section of the co-operatives will have been transformed from being semi-socialist to being fully socialist. During the first half of the second Five-Year Plan, i.e., by 1960, semi-socialist changes will fundamentally have been completed in the remaining half of agriculture. By that time the number of agricultural co-operatives fully socialist in character will have increased still further.

Alongside producer co-operation, co-operation between peasants in the sphere of circulation is becoming increasingly widespread in the form of *supply-and-marketing and credit co-operatives*. These forms of co-operation help the peasants gradually to free themselves from exploitation by merchants and usurers. They assist the peasants to sell foodstuffs and raw material to the State and to obtain means of production and consumer goods, they supply credit at low rates of interest and help to develop savings. They make easier the organisation of producer co-operatives among the peasants.

The State socialist agricultural undertakings are called upon to play a great part in the socialist transformation of the peasant farms. By the beginning of 1955 there were over a hundred large mechanised State farms and over two thousand county and district State farms, about a hundred machine and tractor stations and many machine-hiring and agricultural stations. The State agricultural undertakings give real help to the peasants, showing them in practice the advantage of large-scale mechanisation of farms.

The gradual bringing about of the socialist transformation of agriculture is taking place in conditions of acute class struggle. The kulaks are trying in every way to disrupt the process of developing co-operation, to wreck the co-operatives or to use them for their own ends. The bulk of the peasantry, overcoming the resistance of the kulaks, are confidently advancing along the path of co-operation, which corresponds to their vital interests.

An indispensable part of the socialist changes carried out in China in the transition period is the development of co-operation in small individual handicraft production. Directing the development of small handicraft production on to the socialist

path, the Chinese People's Government is organising the artisans into a distinct type of artel, the *handicraft co-operatives* (production groups in handicraft manufacture, supply and sales artels of handicraft co-operatives, handicraft producer co-operatives).

The Rise of the Material and Cultural Standard of Living of the Chinese People

Socialist construction in the Chinese People's Republic is accompanied by the improvement of living conditions for the workers, the peasants and the intelligentsia. As a result of the carrying through of the agrarian changes the life of the Chinese peasantry has considerably improved as compared with what it was like before. Nevertheless, the peasant masses can deliver themselves completely from need only by taking the socialist road, the road of uniting in agricultural co-operatives.

The position of the working class has considerably improved. In State and private undertakings the working day is restricted to eight to ten hours (instead of the former fourteen to sixteen hours' days) and collective agreements between the undertakings and the workers have been introduced. Workers and employees' wages in State and private undertakings are fixed on a single level for corresponding categories. Throughout the whole country effectively functioning trade unions have been established, in which the majority of manual and clerical workers are organised. In 1951 social insurance for workers and employees was introduced.

The Chinese people have already achieved considerable successes in cultural construction. Before the revolution workers and peasants had no access not only to the middle and higher educational institutions but even to the elementary schools. About 90 per cent of the population were illiterate. In the Chinese People's Republic education has become accessible to the working masses.

The improved material position of the Chinese working people is to be seen from the considerable increase in the purchasing power of the population, which in one year alone, 1953, increased by approximately 20 per cent.

The volume of retail trade was in 1953 180 per cent of what it had been in 1950 (in comparable prices). In 1954 retail turnover was 12 per cent higher than in 1953. In 1952 the wages of workers in all State enterprises were 60 to 120 per cent greater than in 1949. In

1953 they were on the average 5 per cent higher than in 1952 and in 1954 another 5·2 per cent higher. In 1955 over 55 million children were being taught in elementary schools, i.e., nearly 2·4 times the maximum number of pupils in elementary schools before China's liberation; 4·6 million pupils were attending secondary schools, while 290,000 students were in higher educational institutions. In 1954 over a tenth of all the adults and children in the country were studying in various evening institutes.

The conversion of China from a backward agrarian country into a mighty socialist power with a highly developed modern industry requires that serious economic and financial difficulties should be overcome. The growth of productive forces is of decisive significance for raising the welfare of the people. The Chinese people take as their starting point that only by steadily expanding production, by raising the productivity of labour, by carrying through a régime of strict economy, will they gradually be able to get rid of the age-old poverty, consolidate the historical conquests of the people's revolution and ensure a happy future.

The revolution brought a radical change in the position of the women of China. Women enjoy full political rights on the same basis as men, and actively participate in the economic, social, and political life of the country. They receive equal pay with men for equal work. On the introduction of the agrarian reforms women peasants received the same allotment of land as men. Great attention is being paid to motherhood and child protection.

The victory of the people's democratic revolution liberated the Chinese people from national enslavement, and created the conditions for the economic and cultural advance of all nationalities of liberated China on the basis of complete equality of rights.

The victory of the revolution and the building of socialism in China is of world-historical importance. Its importance is particularly great for the countries of the colonial and semi-colonial world, whose political and economic situation is similar to that which existed in China before the victory of the people's revolution. The example of the great Chinese people inspires the peoples of these countries to resolute struggle against imperialism and feudalism, for national and social liberation.

BRIEF CONCLUSIONS

(1) In the course of its development the Chinese people's revolution developed from a bourgeois-democratic into a socialist revolution, as a result of which China entered on the transition period to socialism. The Chinese People's Republic, which came into being as a result of the victory of the revolution, is a State of people's democracy, led by the working class and based on the alliance of workers and peasants. This State is successfully carrying out the functions of the dictatorship of the proletariat.

(2) The people's democratic State has carried out radical social and economic changes. As a result of the revolutionary agrarian reforms, the land and other means of production were confiscated from the landowners without compensation and distributed among the peasants, according to the number of persons, as their own private property. At the same time the people's democratic State was carrying out a number of socialist changes. The overwhelming majority of undertakings in modern large-scale industry, the banks, the most important means of transport, the greater part of wholesale trade, and almost all foreign trade, as a result of the expropriation of the compradore bourgeoisie and foreign capital, passed into the hands of the people's State. Thus the socialist sector of the national economy came into being, embracing State enterprises and also co-operative enterprises based completely on collective property of the working people.

(3) The economy of the Chinese People's Republic is multiform. The socialist sector holds the leading place in it. Bordering on the socialist sector are those forms of co-operation which are partly based on joint labour and have a transitional, semi-socialist character. In addition, there are petty commodity, private capitalist and State capitalist sectors. The petty commodity sector, which embraces the enterprises of the peasants and artisans, continues to occupy the predominant place in the country's economy. A considerable role is played in China's industry and trade by private capital, which is controlled by the State and utilised by the people's democratic government to increase production of manufactured goods. Various forms of State capitalism are also widespread. The

three basic forms of social economy in the transitional economy of the Chinese People's Republic are socialism, petty commodity production and capitalism.

(4) The main classes of contemporary China are the working class and the peasantry. The class struggle is waged between the working class, acting in alliance with the main masses of the peasantry, on the one hand, and the urban bourgeoisie and the rural kulaks on the other—between the socialist and the capitalist elements of the national economy.

(5) The general line and central task of the Communist Party of China in the transition period consists of gradually bringing about socialist industrialisation of the country, gradually effecting the socialist transformation of agriculture, handicraft industry and private trade and industry. The people's democratic State, in carrying through these changes, is creating the conditions for overcoming the age-old technical and economic backwardness of the country, abolishing the exploitation of man by man, eliminating poverty and need, and building socialist society.

CHAPTER XLIII

ECONOMIC COLLABORATION BETWEEN THE COUNTRIES OF THE SOCIALIST CAMP

The Rise and Consolidation of the World Market of Countries of the Socialist Camp

As has already been said, after the second world war the countries which had fallen away from the world capitalist system and formed, together with the Soviet Union, the socialist camp closed their ranks economically and built up close collaboration among themselves. Parallel with the world capitalist market arose a new *world market of the countries of the socialist camp.*

At the present time the countries participating in this market are: the Soviet Union, the Chinese People's Republic, Poland, Czechoslovakia, the German Democratic Republic, Hungary, Rumania, Bulgaria, Albania, the Mongolian People's Republic, the Korean People's Democratic Republic and the Democratic Republic of Viet-Nam. In the territory of these States, equal to a fourth of the land surface of the globe, lives more than one-third of the whole of humanity. After the renewal of the temporarily broken trade relations between the States constituting the new world market and Yugoslavia, broad prospects have opened up for developing economic co-operation with that country.

The countries of Central and South-eastern Europe which fell away from the capitalist system, immediately after the establishment of the people's democratic régime, began to establish close economic relations with the Soviet Union and mutual collaboration among themselves. These relations, based on the principles of fraternal mutual aid, played a big role in the rapid restoration of the economy of the people's democratic States and in the solution of other urgent economic tasks of the post-war period. Following the formation in 1949 of the Chinese People's Republic, a Great Power with a population of 600 millions came into the socialist camp.

The economic collaboration of the States of the socialist

camp entered on a new stage when the countries of people's democracy proceeded to the fulfilment of their long-term national economic plans, aiming at building up the foundations of socialism. This stage is characterised by the passing over to *long-term economic treaties* and agreements regarding mutual deliveries of commodities. Such treaties and agreements guarantee to each country the delivery over a long period of definite types of machines, equipment, raw materials, and other goods indispensable for the carrying out of their national economic plans. At the same time the long-term agreements guarantee to each country the sale of its products on the foreign market. The existence of stable and lasting economic relations creates a clear perspective for the further development of their economy, and is one of the most important conditions for planned socialist construction in the countries of people's democracy.

Experience of economic collaboration between the countries of the socialist camp proves that the world market of the countries of the socialist camp possesses such resources that every country in this camp can find within its bounds all that it needs for its economic development.

With the aim of planned economic collaboration between the countries of the socialist camp, the *Council of Mutual Economic Aid* was established in 1949 on the principle of complete equality of rights of all States participating in it. The Council of Mutual Economic Aid organises the exchange of economic and technical experience and the provision of mutual aid in raw materials, food, machines, and equipment; it ensures the planned linking together and co-ordination of the economic development of the States of the socialist camp, on the basis of a rational division of labour between them. This fully accords with the interests of the most rapid development of the productive forces of each of these countries, and of the socialist camp as a whole.

The steady growth and strengthening of the world market of the countries of the socialist camp serve as irrefutable proof of its historically progressive character.

At the same time development of economic collaboration between the countries of the socialist camp not only does not exclude the growth of their trade connections with the countries of the capitalist part of the world, but creates favourable

prerequisites and conditions for it. The countries of the socialist camp are endeavouring to develop business relations with the countries of the capitalist camp on the principles of equal rights, mutual advantage and strict observance of all obligations undertaken. They see these relations as a substantial factor in the further progress of their own economies, the acceleration of their technical progress and the raising of the standard of living of their population.

Proceeding from Lenin's principle of peaceful co-existence of the two systems and consistently fighting for peaceful co-operation between States with different social and economic systems, the countries of the socialist camp are striving to bring about an extensive development of trade with all States which, for their part, are ready to increase their economic ties with the camp of socialism. In the capitalist countries the desire for normalising and extending trade with the States of the socialist camp is growing—the desire to overcome the artificially-created obstacles in the way of the development of internationl economic co-operation, to do away with the numerous bans and restrictions engendered by the "cold war" policy and the militarisation of economies. The capitalist countries cannot but take into account that the countries of the socialist camp constitute a stable market which is not subject to market fluctuations and economic crises of overproduction. The countries of Western Europe are especially interested in trade with the countries of the socialist camp.

At the same time the development of international economic co-operation between the States of the two camps constitutes an important factor in strengthening peace, relaxing international tension and establishing an atmosphere of international confidence.

Of great importance is the steady extension of economic ties between the States of the socialist camp and the underdeveloped countries. For these countries economic co-operation with the States of the socialist camp is one of the principal means of securing their economic independence. While the capitalist monopolies invariably strive to enslave the underdeveloped countries economically, the Soviet Union and the people's democracies strictly maintain in their economic relations with these countries the principles of non-interference in the internal affairs of other peoples, co-operation on the basis

of equal rights, and mutual benefit. The consistent implementation of these principles will facilitate increased co-operation between the underdeveloped countries, which are striving to emerge as quickly as they can from their State of backwardness, and the countries of the socialist camp.

The Character of the Economic Relations between the Countries of the Socialist Camp

The countries of the socialist camp differ in regard to the level of their economic and technical development. Nevertheless, the mutual relations between these countries are determined by one most important and decisive factor—that they are all following the path of building socialism and communism. In the economy of the countries of people's democracy the *leading place* is occupied by the socialist forms of economy. As a result of this, in the sphere of mutual relations between the countries of the socialist camp the economic laws of capitalism, expressed in the exploitation of man by man, competition and anarchy of production, have lost their validity. In this camp relations between the States are based on the economic laws of socialism. The economic collaboration of the countries of the socialist camp represents a *new type of international relations*, which history has never known before. In the process of strengthening and extending this co-operation a socialist system of world economy is being formed and developed.

In accordance with the *basic economic law of socialism*, economic relations between the countries participating in the new world market are subordinated to the task of the fullest satisfaction of the constantly growing needs of the working people by means of the uninterrupted growth and perfection of socialist production, on the basis of the highest technique. For this reason, in the socialist camp there are not and cannot be economic penetration, unequal exchange, competitive struggle, exploitation, and the enslavement of weak States by stronger ones. The mutual relations of the countries of this camp are characterised by comradely collaboration and mutual aid.

The most important peculiarity of the socialist camp is the planned character of the economic connections of the countries belonging to it. In accordance with *the law of planned, proportional*

development of the national economy, the economic collaboration of the countries of the socialist camp is developing on the basis of the mutual linking together of the national economic plans. The plans of economic collaboration are taken into account in the State plans of development of the national economy of the Soviet Union and the countries of people's democracy. Therein lies the tremendous advantage of the world market of the countries of the socialist camp in comparison with the world capitalist market, subject to periodical crises of overproduction. Basing themselves on their own resources and on fraternal mutual aid, the countries of the socialist camp are securing an uninterrupted growth of the national economy and a systematic raising of the material well-being of the working masses. This in turn provides a secure basis for the constant extension of the new world market, which is free from the sales difficulties inherent in the world capitalist market.

The planned character of the economic development in the countries of the socialist camp guarantees the possibility of the most rational use of existing resources, with the aim of the most rapid development of the productive forces and an uninterrupted advance of the economy and in the well-being of the people. The countries of the socialist camp are interested in the development in every way of the productive forces of each one of them, since such development strengthens the economic might of the camp as a whole. This creates extraordinarily favourable conditions for enlarging and strengthening economic collaboration between the States of this camp.

The development and strengthening of economic collaboration between the countries of the socialist camp are proceeding on the basis of a new, *socialist international division of labour*, which is radically different from the international division of labour in the capitalist system of world economy.

Unlike the conditions prevailing under capitalism, division of labour between the States of the socialist camp is carried out not by means of compulsion and force, not by fierce competitive struggle, but by collaboration between States with equal rights.

Division of labour between the countries of the socialist camp takes into account the possibilities of each country and leads to their general advance. Each country apportions part of its

resources to satisfying the needs of other countries, and in its turn relies on their fraternal help. The rational division of labour between the countries of the socialist camp helps in the all-round development of their productive forces on the basis of priority growth of the production of means of production, since each country can, in a planned way, not only mobilise its own resources but also make use of the resources of the fraternal countries in the interests of a common advance.

At the same time, the socialist division of labour allows the individual countries which supplement each other as participants with equal rights in the general system of the socialist camp, to have the possibility of accelerating the pace of their economic development, while saving vast resources and efforts and avoiding unnecessary overlapping in the development of the various branches of the national economy. Each country can concentrate its efforts and resources on developing those branches for which it has the most favourable natural and economic conditions, production experience and cadres. Along with this, the different countries can avoid having to cope with the production of those types of products the demand for which is met by supplies from other countries. In this way there is achieved a broad *specialisation and co-operation in industrial production*, and the most useful division of labour in the production of food and raw materials.

Such specialisation and co-operation are effected through the linking together of plans of capital construction, and by the conclusion of long-term multilateral and bilateral agreements on mutual aid and collaboration. Specialisation and co-operation have particularly great importance in the most important branches of heavy industry—engineering and metallurgy—where, thanks to this, great possibilities are opening out of considerably reducing the costs of production. In agriculture the establishment of the appropriate division of labour is creating favourable conditions for the most rapid increase of production in all its branches, by raising the productivity of labour and a rational use of agricultural land.

As a result of successful economic co-operation, possibilities for planned co-ordination of the national economies of the countries of the socialist camp have considerably increased. Work is proceeding at the present time, in the European

people's democracies as in the Soviet Union, on the drawing-up of Five-Year Plans for 1956–60. Thus, the long-term plans of these countries will embrace one and the same period of time. This creates conditions for closer co-ordination in economic construction in the Soviet Union and the European people's democracies.

In the mutual relations between the countries of the socialist camp, for the first time in history, an end has been put to the contradictions, insoluble for capitalism, between the objectively progressive tendencies to economic linking together of separate countries, and the imperialist methods of this linking together, effected by means of financial subjection and colonial enslavement of the economically weak peoples by the capitalistically developed States.

Economic relations between developed and backward countries in the capitalist camp are built on the principle of domination and subjection, and reflect above all the relative strength of the partners. The imperialist States, pumping out valuable raw materials from the underdeveloped countries, colonies and semi-colonies, strive to perpetuate their backwardness and dependence as suppliers of agricultural products and raw materials for the economy of the metropolis.

Economic relations in the Socialist camp are characterised by all-round mutual aid, to raise the underdeveloped countries to the level of the advanced ones. As a result of the socialist international division of labour, the liquidation of economic backwardness and one-sided economic development inherited by the countries of people's democracy from capitalism is facilitated, favourable conditions for their industrialisation are created, their economic self-reliance and independence of the capitalist world is strengthened, their economy is rapidly advancing and the well-being of their population is rising.

In the socialist camp the relations between the countries are the embodiment of the principles of *proletarian internationalism*, the international solidarity of the working people. These mutual relations are founded on disinterested mutual support, on respect for their State sovereignty and the national interests of each country. The fraternal friendship and close collaboration of the countries of the socialist camp are a most important source of the unbreakable might of this camp, the determining condition for successful socialist construction in these countries.

The Basic Forms of Economic Collaboration of the Countries of the Socialist Camp

The principal forms of collaboration of the countries of the socialist camp are foreign trade, the granting of credits, scientific and technical aid, collaboration in the training of cadres and exchange of experience in economic construction.

Among these forms of economic collaboration *foreign trade* is of basic importance.

The foreign trade of the countries of the socialist camp is built on principles completely different from those governing foreign trade on the world capitalist market. In the capitalist world foreign trade, concentrated in the hands of the monopolies, is subordinated to the interests of extracting the maximum profit, by means of unequal exchange and other methods of plundering and enslaving the backward and dependent countries. The foreign trade of the countries of the socialist camp is a State monopoly (U.S.S.R. and European countries of people's democracy), or is carried on under the strict control of the State (Chinese People's Republic), and serves the interests of a general advance, the acceleration of the economic development of the countries of this camp, and the raising of the standard of living of their population.

Each of the countries participating in the new world market, realising, thanks to foreign trade, an ever-increasing part of the products of its national economy, receives in return ever greater material values: industrial equipment, raw materials and other commodities required for its economic development. Each country imports commodities which it requires, and exports commodities needed by other countries; and none of the parties to the exchange forces on any partner goods which it does not require, as is often the practice on the capitalist market.

Prices of commodities on the world market of the countries of the socialist camp are stable. They are fixed on the basis of voluntary agreements between parties having equal rights, with strict observance of their mutual interests, which rules out any kind of discrimination and inequality of exchange.

The uninterrupted growth of the foreign trade of the countries of the socialist camp is clear evidence of the development and growing strength of the new world market.

The volume of the Soviet Union's foreign trade in 1954 was four times pre-war, while the foreign trade of the capitalist countries had increased only a little more than one and a half times during that period.

The foreign trade turnover of the Chinese People's Republic in 1954 was double what it had been in 1950. The foreign trade turnover of the six European people's democracies (Poland, Czechoslovakia, Hungary Rumania, Bulgaria and Albania) was in 1954 more than 70 per cent greater than in 1948. Compared with 1946 foreign trade turnover in 1954 had increased—in Poland about 6·5-fold, in Czechoslovakia about 4-fold, in Hungary 14·5-fold, in Rumania 16-fold, in Bulgaria 3·5-fold. In the German Democratic Republic it was more than 25 times what it had been in 1947.

Foreign trade ties between the countries of the socialist camp themselves are developing at especially rapid rates. In 1938 the U.S.S.R.'s total trade with Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, and Albania accounted for barely 1·5 per cent of its foreign trade turnover. In 1954, however, trade with these countries was 40 per cent of the foreign trade turnover of the U.S.S.R. In 1938 U.S.S.R. trade with China amounted to 4 per cent of the Soviet Union's foreign trade turnover; in 1954 it was 18 per cent.

In 1954 the share of the countries of the socialist camp in the total trade turnover of Poland was more than 70 per cent, of Czechoslovakia about 75 per cent, of Rumania 82 per cent, of Hungary 70 per cent, of Bulgaria 87 per cent, of Albania nearly 100 per cent, and of the German Democratic Republic over 75 per cent.

The Soviet Union, having at its disposal a highly developed heavy industry, particularly in engineering, is supplying great quantities of the most diverse equipment to the countries of people's democracy. Between 1948 and 1954 the supply of industrial equipment and machines from the Soviet Union to the countries of people's democracy increased more than ten-fold.

Machines, equipment and other means of production have an important place also in the exports of other countries of the socialist camp. Czechoslovakia exports products of the engineering, metallurgical and chemical industries and coke, as well as footwear. Poland supplies hard coal, coke, rolled metal, zinc, railway rolling stock, besides food products. Hungary exports metal-cutting lathes, turbines, transformers, cranes, aluminium, bauxite, and foodstuffs. Oil, oil products, and timber occupy an important place in Rumania's exports. Bulgaria exports lead and zinc concentrates, cement, timber, chemicals, fruit, tobacco, and wines. Albania supplies ores, oil, bitumen, ores, skins, and fruit. The German Democratic Republic exports products of the engineering, electrotechnical, and chemical industries, precision tools, and optical instruments. The Chinese People's Republic exports industrial and agricultural raw materials and food products.

An important form of economic collaboration between the countries of the socialist camp is the *provision of credits*. In the capitalist world credit relations serve as one of the most effective instruments for the economic robbery of underdeveloped countries by the monopolies of the imperialist Powers. The provision of credits usually carries with it the obligation to spend the sums advanced in the purchase of goods from the creditor country. In this way the imperialists unload on the debtor countries their old stocks of goods, in the first place consumer goods, at monopoly high prices. In the socialist camp the provision of credits is not linked with any privilege for the creditor. Credits are provided chiefly for purchasing equipment and machines and other means of production, but also for the purchase of those consumer goods which are not produced in the country in question but are required for its population. The States which take up loans pay them off, with the interest on them, by means of goods of the type normally exported by them, and at fair prices.

Thus, under the credit agreement concluded on February 14, 1950, the Soviet Union undertook to grant the Chinese People's Republic a long-term credit on advantageous terms (from 1 per cent per year) for 300 million American dollars, to be utilised over a period of five years from January 1, 1950, in equal annual instalments, for acquiring from the Soviet Union equipment and materials, including equipment for electric power-stations, metallurgical and engineering works, equipment for coal and ore mines, for railways and other means of transport, rails and other materials necessary for the restoration and development of China's national economy. In 1954 the Soviet Union granted the Chinese People's Republic a long-term credit for 520 million roubles. Under economic agreements in 1953 and 1954, the Soviet Union, rendering aid to China in the carrying-out of its first Five-Year Plan, undertook to be responsible for planning and supplying equipment for the building or reconstruction of 156 very large industrial enterprises. The Soviet Union is helping China to build, equip and start up these enterprises.

On the basis of long-term credit agreements, the Soviet Union is supplying large quantities of machinery and equipment to Bulgaria, Albania, and other countries. Thanks to Soviet credits, Albania has received complete equipment for whole factories and works: for a textile combine, sugar and cement works, for an oil refining works and other undertakings. Bulgaria has received complete equipment for the Stalin chemical combine, for the Chervenkov thermo-electric station, for a metallurgical and lead and zinc works, and for a number of other undertakings.

Scientific and technical aid is of tremendous importance for the economic advance of the countries of the socialist camp. This help is given in many different forms, in the first place in the form of handing over patents, licences, and technological documents covering the most modern inventions and technical improvements, mutual exchange of technical experience in production, joint exploitation and utilisation of natural resources, joint construction of industrial undertakings, mutual aid in specialists.

The countries of the socialist camp furnish one another with this extensive scientific and technical aid on the basis of close collaboration and mutual assistance.

The Soviet Union is helping the countries of people's democracy to erect huge modern undertakings and whole branches of industry, in the first place, of heavy industry, which is the basis for the economic development of all the countries advancing towards socialism. In the field of technical aid the Soviet Union provides industrial undertakings and cultural institutions, built according to Soviet designs, with the newest and best equipment. The Soviet Union passes on to the other countries of the socialist camp scientific inventions, patents, and licences covering the most modern productive technical achievements, for which they pay only the actual expenses incurred in the planning and preparation of the scientific documentation. Soviet specialists—engineers and technicians —help the countries of people's democracy to carry on research work, to exploit local deposits of useful minerals, and to carry out complicated assembly and construction work on a number of large new projects.

Extensive exchange of the achievements of science and technique between the countries of the socialist camp is playing an important part in hastening technical progress in all these countries, ensuring rapid introduction of the most advanced kinds of equipment and methods of production into industry, transport and agriculture.

Of outstanding importance for the development of the productive forces of the people's democracies is the decision of the Soviet Union to render these countries scientific, technical and industrial help in setting up experimental centres for research in the field of nuclear physics and the use of atomic energy for peaceful purposes. The people's democracies will

be provided with the necessary amount of fissionable material for atomic piles and experimental work, and they in their turn will supply the Soviet Union with appropriate raw materials.

Among the number of very large industrial undertakings, originated and built in the European people's democracies with the assistance of the Soviet Union, are the Lenin metallurgical combine, a factory for light cars and trucks, and an aluminium works in Poland; the Gottwald metallurgical combine in Czechoslovakia; the Stalin metallurgical combine in Hungary; the Lenin hydro-electrical station and a tractor works in Rumania; the Stalin chemical combine and the Lenin metal works in Bulgaria; the Lenin hydro-electrical station in Albania; and a number of other combines, heavy industrial enterprises, and power-stations.

Broad technical assistance by the Soviet Union is one of the most important conditions for opening up to the countries of people's democracy the possibility of setting up in a short time new manufactures and whole branches of industry which these countries did not have. Thus Rumania not only extended its oil-extracting industry but also set up its own oil machinery industry, producing nearly all the equipment necessary for extracting oil and a considerable part of the complicated apparatus needed for oil refining. It is a unique event in the world for a small country, possessing an abundance of oil, to be able also to set up its own oil machinery plant. Small countries with oil resources in the capitalist world, mercilessly exploited by American and British monopolies, could not even dream of such things.

By the Czechoslovak-Hungarian agreement, Czechoslovakia is given the possibility of setting up an aluminium industry based on Hungarian bauxite. Poland helped Czechoslovakia to organise the production of carbide and to construct a zinc smelting works. At Nowy Dwory (Poland) Poland and Czechoslovakia jointly constructed an electric power-station supplying power to both countries. By granting to Czechoslovakia a long-term lease of part of the port of Szczeczin, Poland provided her with an outlet to the sea.

Closely connected with scientific and technical collaboration of the countries of the socialist camp is *collaboration in the training of cadres*. In the higher educational institutions of the Soviet Union, Czechoslovakia and Poland, a large number of students from fraternal countries are given systematic training. Young specialists from these countries acquire practical experience in factories and scientific institutions.

On an ever wider scale *study and exchange* of experience in a very wide range of production, technical and organisational questions is taking place. With this aim numerous delegations

of public men, business managers and engineers are being exchanged and industrial exhibitions organised, etc.

An important factor in strengthening economic co-operation between the peace-loving countries is the development of foreign trade and other economic ties by the Soviet Union and the people's democracies (Czechoslovakia, Poland, Hungary) with economically underdeveloped countries. These ties are being steadily developed on the basis of commercial and other agreements which facilitate the growth of the productive forces and improvement in the well-being of the peoples.

Thus, the Soviet Union is building in India under the provisions of the Soviet-Indian agreement of February 2, 1955, on long-term favourable credit conditions, a large metallurgical works with a capacity of a million tons of steel per year. The Soviet Union is supplying all the equipment and rendering all the technical help needed, including despatch of highly qualified specialists, and also training Indian personnel both in India and in the Soviet Union.

The progress of economic collaboration between the countries of the socialist camp, the steady growth of the many-sided economic relations both among themselves and between them and the capitalistic countries facilitate the consolidation of peace and friendship between the peoples.

BRIEF CONCLUSIONS

(1) The mutual economic relations between the countries of the socialist camp represent a completely new, socialist type of international relations. At a time when, in the capitalist world, economic relations between countries are founded on the principles of the rule of the strong countries over the weak, the struggle of all against all, on anarchy and planlessness, economic relations in the socialist camp are built up on the principles of complete equality on both sides and mutual benefit, respect for the State sovereignty of all peoples, large and small, fraternal mutual assistance, planning and organisation of all economic connections. Relations between the countries of the socialist camp are the embodiment of the principles of proletarian internationalism—the international solidarity of working people.

(2) Economic collaboration between the countries of the socialist camp is based on the economic laws of socialism. In conformity with the basic economic law of socialism and the law of planned, proportional development of national economy, the economic ties between the countries of the socialist camp are subordinated to the general aim of the fuller satisfaction of the constantly growing needs of the whole of society, through a continuous increase in production, and develop in a planned manner on the basis of equality of exchange. All this secures the constant extension of the capacity of the world market of the countries of the socialist camp and eliminates the possibility of economic crises. The planned character of the economic development of the countries of the socialist camp guarantees the possibility of the most expedient utilisation of their resources. The economic collaboration of the countries of the socialist camp is achieved on the basis of a new, socialist international division of labour.

(3) Foreign trade, rapidly growing from year to year, occupies chief place among the various forms of economic collaboration of the countries of the socialist camp. Of great importance are such forms of economic collaboration as the provision of credits and loans, scientific and technical aid, collaboration in the training of cadres and exchange of experience of economic construction. All these forms of economic collaboration of the countries of the socialist camp are developing with the aim of achieving the most rapid growth of the productive forces, the steady growth of the economy and of the well-being of the peoples.

CONCLUSION

Marxist-Leninist political economy has passed through more than a century of development. As with Marxist-Leninism as a whole, Marxist-Leninist political economy bears a creative, operative character. Thoroughly opposed to dogmatism, it develops in close and unbreakable association with the practice of the labour movement, with the practical struggle of the working class and all working people for socialism and communism, and is enriched by new theoretical principles on the basis of the generalisation of new historical experiences.

Marx and Engels gave a scientific analysis of the fundamentals of capitalism as an historically transitory mode of production, and disclosed the economic laws of its rise, development and downfall. In their *Manifesto of the Communist Party*, *Capital*, *Critique of the Gotha Programme*, *Anti-Dühring*, and other works, Marx and Engels revealed the historical role of the proletariat as the grave-digger of capitalism and the builder of socialist society. They created the theory of the proletarian revolution, proved the economic necessity of the transition period from capitalism to socialism as a distinct historical period of the revolutionary transformation of capitalist society into socialist society, and in general outline indicated the character of the two phases of development of communist society.

The most important thing in Marxism is its teaching on the dictatorship of the proletariat as a State of a new type, playing a decisive role in the socialist transformation of society. Marx and Engels outlined a programme of the most important measures to be carried through by the proletarian dictatorship: expropriation of the expropriators, the replacement of private ownership of the means of production by social ownership, the abolition of exploitation of man by man and of the exploiting classes, and the ensuring of a rapid rise of the productive forces of society.

Marx and Engels foresaw that in socialist society anarchy of production would be replaced by planned development of social economy, and the principle of distribution according to work would be realised. Only with the further rapid development of the productive forces, with the growth of an abundance

of products, with the transformation of work into the prime necessity of life for man, will there be completed the transition from the lower stage of communism to the higher stage, when the ruling principle of social life will be: "From each according to his ability, to each according to his needs."

Lenin, developing Marxist political economy, enriched it by the scientific investigation of the monopolist stage of capitalism, imperialism, and of the general crisis of capitalism. The most important conclusion from this investigation was the new, completed theory of the socialist revolution, the theory of the possibility of the victory of socialism first of all in a few countries or even in one country alone.

Guided by the thesis of Marx and Engels on the expropriation of the expropriators as the primary task of the proletarian revolution, Lenin, in his *On the Tasks of the Proletariat in the Present Revolution*, *The Threatening Catastrophe and how to Combat It*, *Will the Bolsheviks Maintain State Power?* and other works, provided a scientific foundation for the programme of nationalisation of the land, large-scale industry, the banks and foreign trade, as the most important measures of the proletarian dictatorship aiming at the seizure of the key positions of the economy.

On the basis of the scientific generalisation of the historical experience of the great October Socialist Revolution and the practice of socialist construction in the U.S.S.R., Lenin enriched Marxism as a whole, and Marxist political economy in particular, by a profound analysis of the laws of the socialist transformation of society. In his *State and Revolution*, *The Proletarian Revolution and Kautsky the Renegade*, *Left-Wing Communism: an Infantile Disorder*, *Economics and Politics in the Epoch of the Dictatorship of the Proletariat*, and other works, an all-round investigation is provided of the question of the dictatorship of the proletariat. Lenin defined the dictatorship of the proletariat as a special form of class alliance of the proletariat with the main masses of the peasantry, under the leadership of the proletariat, and as the highest type of proletarian democracy, expressing the interests of the working masses. He revealed the content and historic mission of the dictatorship of the proletariat, defining its three basic aspects: (*a*) suppression of the exploiters, (*b*) leadership of the working masses, and (*c*) the building of socialist society.

Lenin investigated the question of the nature and role of

social classes and the class struggle in the transition period from capitalism to socialism, giving a scientific analysis of the economic and class structure of society in this period. He illuminated in all its aspects the question of the alliance between the working class and the basic masses of the peasantry, and of the leading role of the working class in this alliance. Lenin indicated the way to the liquidation of the exploiting classes and the abolition of exploitation of man by man in the period of the dictatorship of the working class, showing that the building of socialism is accompanied by sharp class struggle against the exploiting classes.

In his *Next Tasks of Soviet Power*, *How to Organize Emulation*, *The Great Beginning*, *On the Single Economic Plan*, *On the Food Tax*, *On Co-operation*, and other works, Lenin provided the theoretical basis for, and indicated the path of, economic policy in the transition period from capitalism to socialism. Lenin was the author of the concrete plan for building socialism in the U.S.S.R., which was of world historical importance. The most important parts of this plan were the socialist industrialisation of the country and the collectivisation of agriculture. Lenin showed that, in order to build the foundations of socialist economy and to safeguard the economic independence of the Soviet land from world imperialism, it was necessary to overcome, in the shortest possible time, the age-old backwardness of Russia and to create a socialist heavy industry. Lenin put forward the co-operative plan of gradually drawing the peasants into the stream of socialist construction, at first on the basis of a trade bond and then also by a bond between industry and agriculture in the field of production.

By drawing general conclusions from the practice of socialist construction, Lenin worked out the foundations of the basic economic law of socialism, the law of planned development of the national economy, and other laws. Lenin laid down the principles of socialist management, revealed the significance of personal material incentive in increasing socialist production, and creatively developed the Marxist principle of distribution according to work under socialism, of wages, etc. Lenin in his works showed the necessity for the development of trade and the utilisation of money in developing Soviet economy, and in strengthening the bond between town and country. Lenin, with scientific discernment, foresaw that the socialist

revolution, carrying out the great change from compulsory labour for the exploiters to free labour for themselves, for the whole of society, would give birth to a revolutionary enthusiasm among the masses which was unprecedented in history, and would for the first time create the possibility of applying emulation on a broad mass scale. He elaborated the questions of the strictest national accounting and control over the production and distribution of products of the establishment of a new socialist labour discipline, and of economic accounting.

Lenin's works contain a further creative development of the basic principles of Marxism concerning the way to build communist society, the role of electrification and a rise in labour productivity in creating the material production basis of communism, on the conditions for the transition to the communist principle of distribution according to needs.

Basing himself on the works of the creators of genuine scientific political economy—Marx, Engels, and Lenin—Stalin advanced and developed a number of new principles in economic science. Stalin's works given an analysis of contemporary monopoly capitalism; they paint a picture of the general crisis of the capitalist system as the all-round crisis of capitalism, embracing both its economics and politics.

On the basis of generalisation from the experience of socialist construction in the U.S.S.R., Stalin worked out a number of problems of the political economy of socialism. Proceeding from Lenin's teachings, Stalin, in his reports to Party congresses and conferences, in his works *Problems of Leninism*, *Economic Problems of Socialism in the U.S.S.R.*, etc., showed concretely ways and methods of socialist construction, of effecting the socialist industrialisation of the country and the collectivisation of agriculture. Basing himself on the fundamental principles laid down in the works of Marx, Engels and Lenin, Stalin formulated the basic economic law of socialism and the law of planned, proportionate development of the national economy.

In the works of Stalin there are to be found his further elaboration of Lenin's propositions on the methods of socialist management, on the necessity of utilising the law of value and money, on economic accounting, on the principle of the personal material interest of the workers in the results of their labour, on the superiority of the socialist system of economy over the capitalist system.

Stalin developed and made concrete Marxist-Leninist teachings on the transition from socialism to communism: on the State under communism, on the effacing of the essential differences between town and country and between mental and physical labour.

Marxist-Leninist political economy is being further developed on the basis of analysing the economic processes taking place in the capitalist countries, generalising the practice of communist construction in the U.S.S.R. and the building of socialism in the countries of people's democracy. It is being enriched by the new experience of the revolutionary struggle of the working class and broad sections of working people in the capitalist countries against oppression and exploitation, and also by the experience of the national liberation struggles of the colonial peoples.

The creative development of Marxism-Leninism, the theoretical generalisation of the practice of the struggle for communism, is vividly reflected in the decisions of the Communist Party of the Soviet Union and of the fraternal Communist and Workers' Parties of other countries. New ideas are being contributed to economic theory by the leaders of the proletarian parties of all countries, closely linked with the masses of the working people and expressing in their works the progressive tendencies of the development of material life of society.

Marxist-Leninist political economy, as the most important component part of Marxism-Leninism, is the most powerful ideological weapon of the proletariat in its struggle against capitalism, for socialism. It is a genuinely scientific political economy, as it expresses the interests of the working class and all progressive forces of humanity interested in the objective study of the laws of the economic development of society, leading inevitably to the downfall of capitalism, to the victory of communism.

Marxist-Leninist political economy exposes the anti-scientific, reactionary character of bourgeois political economy. It exposes the class meaning of the reformist views of the petty-bourgeois economists, who bring grist to the mill of bourgeois political economy. It arms the working class with knowledge of the economic laws of the development of society, and makes it possible for the revolutionary Marxist-Leninist parties to build their policy on scientific foundations.

What basic conclusions result from the study of political economy? What does political economy teach?

(1) Political economy teaches above all that the economic development of human society is a process conforming to law. The rise and development of each mode of production, the replacement of one mode of production by another, take place not by the arbitrary will of man but in virtue of the operation of objective economic laws.

The laws of political economy, just as the laws of every other science, are a reflection in the brains of people of objective realities, conforming to law. In addition, political economy provides a deep and all-round justification for the most important Marxist proposition that the principal force in the development of society, the genuine creator of history, is the people, the working masses. It shows the mobilising, organising, and transforming role of advanced ideas, arising from the urgent needs of the development of the material life of society. Political economy, revealing the laws of social production and the distribution of material wealth at the various stages of development of society, provides the key to an understanding of the whole process of development of human society as a single process, conforming to law in all its many-sidedness and contradictions.

Human society is developing from lower forms of its existence to higher ones. Each mode of production constitutes a definite stage in the advancing movement of society, in the development of its productive forces and relations of production. Prior to the socialist revolution the development of society proceeds in such a way that the relations of production of the new social economic order, arising to replace the old out-lived order, for a certain period of time assist the development of the productive forces, but later on become transformed into a fetter on them. There then takes place a change from one economic order of society to another, higher economic order. In a society divided into antagonistic classes, this change is brought about through the class struggle, by means of social revolution, overthrowing the power of the out-of-date ruling class and consolidating the power of the new, advanced class.

Political economy, studying comprehensively the rise, development and downfall of social-economic formations based on private property in the means of production, lays bare the economic roots of the class struggle. It shows that the creators

of wealth are the working masses, but the fruits of their labour are appropriated by the exploiting classes. This means that the class struggle is conditioned by the vital material interests of definite classes and by the laws of economic development of each particular mode of production.

Each new social order based on private property in the means of production—slave society, feudalism, capitalism—consolidated the power of the exploiters, changing only the forms of exploitation and oppression of the working people. The whole course of the economic development of society bears witness to the fact that capitalism is the last social order based on the exploitation of man by man. Political economy shows that, in its monopolist stage, capitalism has already for a long time been transformed into a reactionary order, holding back the further advancing movement of society. To replace moribund capitalism there is advancing a new social order—socialism, signifying the abolition of exploiting classes, the ending of the exploitation of man by man.

The history of the development of human society completely confirms the correctness of this scientific conclusion of Marxist-Leninist political economy. Socialist society has been built in the Soviet Union. With the victory of socialism in the U.S.S.R. the anti-scientific inventions about the eternal nature of private property in the means of production and the capitalist order were completely exposed. The successful building of socialism is in progress in the European countries of people's democracy. The great revolutionary transformations in China's economy have created the preconditions for the building of socialism which is in progress in this, the largest country of the East. The Soviet Union is carrying out the gradual transition from socialism to communism. The U.S.S.R. possesses all that is necessary for communist society to be built. Communist society, the first stage of which is socialism, is the ultimate aim of the struggle of the working people of all countries.

Political economy gives the working class and all working people confidence in the victory of communism, showing that this victory is determined by the whole preceding course of historical development.

(2) Political economy, from the experience of the U.S.S.R. and the countries of people's democracy, teaches how the working people of the capitalist countries can free themselves

from capitalist bondage. It shows that the enslavement and impoverishment of the working people in the bourgeois countries are not the result of accidental causes, but are rooted in the capitalist system of economy and are the outcome of the economic laws inherent in this system. Crises, unemployment, the impoverished condition of the masses of the people, cannot disappear without a change in the very basis of production relations, that is, without the means of production passing from the private ownership of the capitalists and landowners into the social ownership of the working people.

Disclosing the antithesis between the basic principles of bourgeois and socialist economy, and the irreconcilability of the class interests of the bourgeois on the one hand and those of the proletariat and all working people on the other, political economy shows the impossibility of the peaceful "growing" of capitalism into socialism. No efforts of any kind to reform, to "improve" capitalism can put an end to the system of wage slavery. The great October Socialist Revolution proved irrefutably that only by liquidating the very foundations of capitalism can the working class and the working peasantry liberate themselves from bondage to the exploiters and enter on the road to a free, prosperous and cultured life. Historical experience fully confirms the truth of the Marxist proposition that the socialist revolution is inevitable, that to change from capitalism to socialism is impossible without the setting up of the power of the working people, without the dictatorship of the proletariat, without the alliance of the working class and the peasantry. For the achievement of this aim the existence of a Communist Party, capable of preparing the proletariat and the working masses for the decisive struggle with the bourgeoisie and organising the victory of the socialist revolution, is indispensable.

Political economy shows that the plunder and enslavement of the colonial peoples by the metropolitan countries arises from the very essence of imperialism, closely linked with the feudal landowning and bourgeois compradore circles of the colonial countries. The peoples of the colonial and semi-colonial countries can free themselves from robbery, poverty, and backwardness only by means of liberation from the yoke of imperialism and its local vassals, by abolishing the relics of feudalism and carrying out radical democratic changes. The

colonial countries, having broken with the imperialist system and secured their independence, can, with the economic support of the U.S.S.R. and other countries of the socialist camp, escape the painful path of capitalist development and gradually create the preconditions for going on to the building of socialism. The experience of the revolutionary struggle and victory of the Chinese people has confirmed in practice this conclusion of Marxist-Leninist political economy, and has proved that the liberation of the colonial and semi-colonial countries from the yoke of imperialism leads them on to the path of free existence, of material and cultural prosperity.

The overthrow of the capitalist order in one bourgeois country or another and its replacement by the socialist order, the falling away of any colonial country from the imperialist system and the realisation in it of democratic transformations, take place not as a result of "export of revolution", which is a fiction of the imperialists, but by reason of the profound internal necessities of the economic development of these countries.

(3) Political economy teaches how to transform economy in the spirit of socialism. The transition to socialism cannot be carried out by arbitrarily chosen paths, but is a process conforming to laws. Political economy shows that the dictatorship of the working class in the building of the new, socialist society relies first and foremost upon the law of obligatory correspondence between production relations and the nature of the productive forces. In the transition period there takes place on the basis of this law the socialisation of the means of production, the abolition of the exploitation of man by man and the creation of socialist forms of economy. As relations of capitalist exploitation are abolished, socialist production relations arise and develop, and the economic laws of socialism begin to operate and develop. Making use of economic laws, the Socialist State consistently carries through a policy of industrialising the country and collectivising agriculture, building socialist society. The building of socialism proceeds in irreconcilable class struggle against the capitalist elements in town and country.

Political economy exposes the lying inventions of bourgeois ideologists to the effect that the working class, when it comes to power, is not capable of organising the economy. The historical experience of the U.S.S.R. shows what inexhaustible creative

force is generated by the power of the working people. For the first time in history the working class and working people in a vast country, comprising one-sixth of the earth's surface, cast aside the yoke of exploitation and oppression, became the masters of their country and created a socialist order which secured an uninterrupted rise of the productive forces, social wealth, and material welfare and culture of the masses of the people. This proves that the people are capable of successfully doing without the exploiters, that the working class, the working masses, are capable not only of destroying the old bourgeois system of economy but also of building up a new, higher socialist system of economy. The practice of socialist construction in the countries of people's democracy provides further convincing evidence of this.

Political economy provides the economic justification of the need for the leading role of the working class in socialist construction, the durable alliance of the working class with the peasantry, having as its aim the building of socialism and the abolition of exploitation of man by man. The alliance of the working class with the peasantry is the unshakeable basis of the social order of all the countries of the socialist camp. On the basis of the alliance of the working class with the peasantry the age-old peasant question is being solved, and the transition from small individual peasant farming to large-scale collective economy is being brought about, delivering the peasantry from poverty and ruin. The victory of collective farming in the U.S.S.R. has refuted in practice the bourgeois legend that the peasantry is incapable of taking the path of socialism.

Political economy draws general conclusions from the historical experience of socialist construction in the U.S.S.R. It shows how a formerly poor and weak country, as prerevolutionary Russia was, was transformed into a rich and powerful country as the Soviet Union is today. From the treasure-house of Soviet experience the countries of people's democracy draw knowledge of the proven path of socialist construction, the laws of the class struggle in the transition period, knowledge of how the working class achieves unbreakable friendship and durable alliance with the peasantry, how to consolidate the economic bond between town and country, how to achieve victory over the exploiting class and build socialist society.

In order to make use of Soviet experience it is necessary carefully to take into account the concrete peculiarities of the economic and class relations in each country, determined by the totality of all the historical conditions of its development. In the countries of people's democracy the building of socialism is taking place in conditions more favourable than those which obtained in the Soviet Union, in as much as at the present time there exists the powerful socialist camp headed by the Soviet Union and the Chinese People's Republic and an extremely rich store of experience of socialist construction has been accumulated. The decisive condition for the victory of socialism and communism in all countries which have dropped out of the capitalist system is the further strengthening of the power of the socialist camp, the further development of economic, political and cultural collaboration between the countries which have entered this camp.

(4) Political economy teaches that the practical work of socialist construction can be successful only on condition that it is based on the economic laws governing the development of society. Political economy makes it possible to come to know the objective laws of economic development and to use them in the interests of society.

Knowledge of economic laws renders it possible to penetrate deeply into and grasp the essence of economic processes, bringing to light the progressive tendencies of development when they are still in their initial stages, scientifically to foresee the course of economic development and direct it in accordance with the task of building communism. Political economy arms the cadres in the struggle for the victory of the new and advanced over the old and obsolete. Scientific knowledge of economic laws, derived from the study of political economy, forms the basis of the economic policy of the Communist and Workers' Parties holding power in the countries of the socialist camp. Guided by Marxist-Leninist theory, by knowledge of objective economic laws, these Parties are working out and carrying through a policy that is scientifically based and tested in practice, a policy which reflects the requirements for the development of the material life of society and the basic interests of the people; they come forward as the inspirers and organisers of the revolutionary creative power of the masses.

Throwing light on the operation of the basic economic law

of socialism, political economy guides the cadres in carrying out their work in accordance with the aim of socialist production—the maximum satisfaction of the material and cultural needs of the people. Political economy reveals the conditions necessary for the uninterrupted growth and improvement of production on the basis of higher technique. It shows that the necessary condition for such a growth of socialist production is the using of the economic law of priority growth of the production of the means of production, the advance of heavy industry, and on that basis the continuous growth of technique, all-round development of science and introduction of the most up-to-date achievements of science and technique into production.

Political economy teaches that the deciding factor in the further progress and all-round development of the national economy is the raising by all possible methods of the productivity of labour in all branches of production—in industry, transport, agriculture. Without a continuous growth in the productivity of social labour it is not possible to achieve maximum satisfaction of the growing demands of the people. Along the roads of technical progress and growth in the productivity of labour the basic economic task of the U.S.S.R., that of overtaking and outstripping the economically more highly developed capitalist countries, is being fulfilled.

Political economy shows that reliance on spontaneity is profoundly alien to the socialist economic order, that the building of communist society can take place only by the planned control of economy, on the basis of the law of planned development of the national economy and in accordance with the requirements of the basic economic law of socialism. Study of the requirements of the law of planned development of the national economy in the concrete conditions of each particular stage of communist construction helps to maintain the necessary proportionality in the development of the economy, to carry out the correct location of socialist production, and most effectively to utilise material, financial and labour resources.

Political economy reveals the great importance for socialist construction of the material interest of the masses in the steady increase of production resulting from socialist relations of production. Revealing the role and importance of the law of distribution according to work for the development of socialist

economy, political economy gives guidance to the cadres in the consistent application, in all branches of the national economy, of differential rewards for labour, directly dependent on its results, and for the elimination of elements of equalitarianism. It shows the role of socialist emulation as a powerful driving force in the economic development of socialist society.

Political economy explains the importance of the skilful use of the law of value, and the economic instruments connected with it, for socialist construction. Understanding of the operation of the law of value under socialism serves the cadres as a most important means of improving methods of production, lowering costs of production, improving economic accounting and increasing the profitability of socialist undertakings, carrying out a materially well-founded price policy, giving material stimulation to the development of collective farm production, developing trade, and perfecting the financial system. Political economy reveals the tremendous possibilities contained in socialist planned economy for conducting a strict régime of economy and increasing socialist accumulation.

Steady growth of the creative activity of the masses in economic and cultural construction is characteristic of the Soviet Union and the countries of people's democracy. For this reason, ever greater importance attaches to knowledge by the masses of the laws of economic development and the principles of socialist economy. Arming the cadres with the knowledge of economic laws, political economy provides the possibility of more and more successfully utilising and applying these laws in practice, and thereby raising the efficiency of all work for the building of socialism and communism.

Revealing the reciprocal relations between economic processes, political economy makes it possible for every worker to understand the importance of his activity for the development of the whole socialist system of national economy. It teaches him to understand that, in the conditions of socialism, the interests of the whole people, of the whole State, come before everything else.

(5) Political economy shows that socialism is the most advanced mode of production, having a decisive superiority over capitalism. This fact finds clear expression in the contrast between the basic economic laws of socialism and capitalism, determining two distinct lines of development.

Whereas in the capitalist countries production is subordinated to the law of extracting the maximum profit, dooming the working people to unemployment, poverty and ruin, to bloody wars, in socialist society production is subordinated to the interests of man, to the satisfaction of his growing needs.

Whereas in the capitalist countries the rate of growth of production lags far behind the huge possibilities opened out by the present-day level of scientific and technical development, and is periodically interrupted by devastating economic crises, in the countries of socialism planned development of economy is being carried on and a continuous growth of production is taking place, the rate of which considerably exceeds the growth of production in the developed capitalist countries.

In the capitalist world a competitive struggle between countries goes on, with enslavement of some countries by others. Monopoly capital in its unbridled pursuit of maximum profit is striving to bring about an economic redivision of the world and world domination, and this leads to the international situation becoming more acute, to militarisation of the economy and the rise of the danger of fresh wars. In the camp of socialism there are no exploiting classes with an interest in international conflicts and military clashes; the socialist countries, which have torn up by the root the policy of colonial enslavement and imperialist expansion, are resolutely and consistently fighting for peace, for the relaxation of international tension, for peaceful co-operation and friendship between the peoples, regardless of the social system of their States. A vivid example of the new, socialist type of international relations is the relationship between the countries of the socialist camp, which is based on the principle of complete equality and mutual advantage, with the aim of bringing about a general economic advance by these countries and the flourishing of their cultures.

In peaceful competition with capitalism, the socialist system of economy proves more strikingly every year its superiority over the capitalist system of economy. At the same time the capitalist system of economy, torn by internal contradictions, is every year showing more clearly its instability and the fact that it is historically doomed.

The magnificent perspective of the progressive development of humanity is classless communist society. Political economy

shows the economic conditions of the transition to communism, generalising from the practice of communist construction in the U.S.S.R. It shows that objective laws of social development lie at the basis of the movement of contemporary society to communism. Communism arises as a result of the conscious creative activity of the many millions of working people, led by the Communist Party armed with the theory of Marxism-Leninism. There exists no force in the whole world capable of holding back the advancing movement of society on the path to communism. The tremendous growth of the forces of democracy and socialism, the sharp aggravation of class contradictions between the imperialist bourgeoisie, on the one hand, and the working class and working people on the other, the growing sweep of the national liberation movements in the colonies, the powerful movement of the masses of the people and of all progressive forces of contemporary humanity throughout the world against imperialist reaction and preparation of new wars—all this is irrefutable proof of the fact that capitalism has outlived its time and the future belongs to communism.

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